FOREIGN TRADE — BALANCE OF PAYMENTS

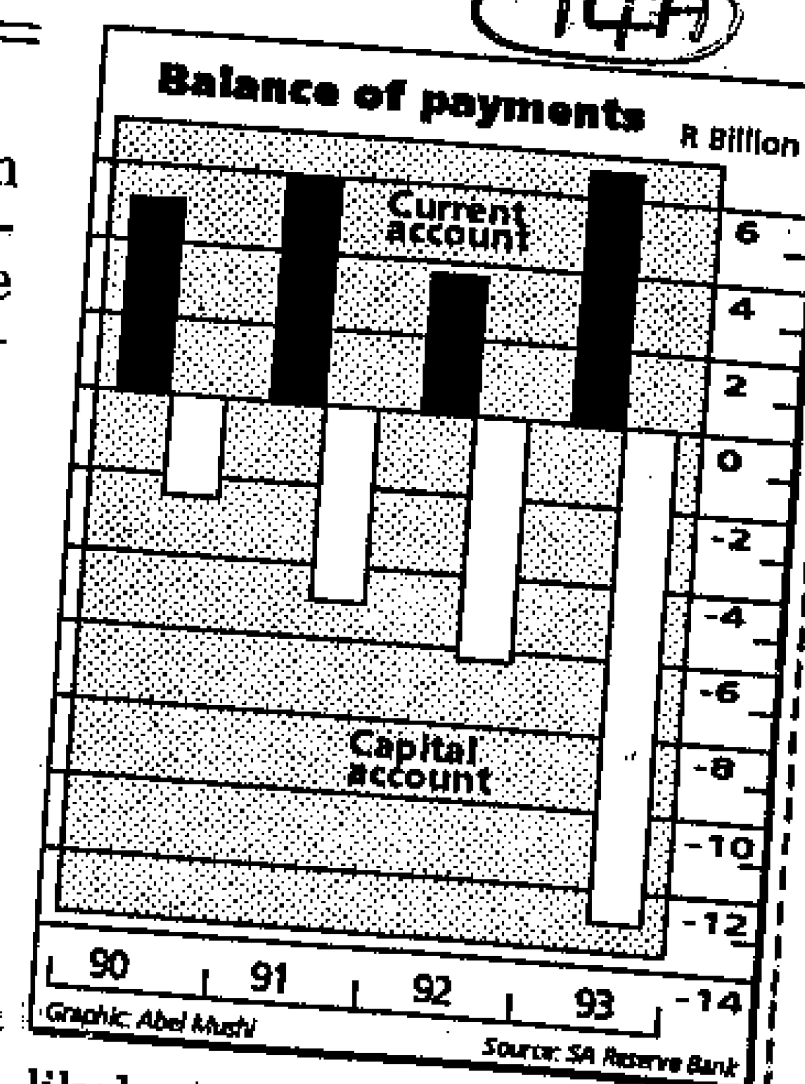
1994

# Capital flight now a major worry

Star 7/1/94

(14A)

**BY SVEN LUNSCHE**




Continued large outflows on the capital account of the balance of payments could place a strong damper on growth potential this year.

Finance Minister Derek Keys disclosed in an article yesterday that the flight of short-term capital averaged about R1 billion a month in the December quarter last year.

For the first nine months of the year, capital outflows amounted to R9,4 billion, bringing the total for 1993 to R12,4 billion.

The ever-increasing outflows will almost inevitably wipe out the expected surpluses on the foreign trade and current accounts.

They have already reduced the gold and foreign exchange reserves to levels at which they are barely sufficient to cover one month of imports.

Sanlam's economists recently estimated that over R50 billion had left between 1985 and 1993, being money which otherwise could have been invested in the local economy.

"This has placed a damper on growth potential — and therefore also on the economy's ability to create jobs," Sanlam said in its December 1993 survey.

Foreign debt repayments of $2 billion accounted for half of last year's capital drain, with the remainder attributed to violence and political uncertainty.

Only a peaceful election was likely to reverse the capital flight, economists said yesterday, warning that renewed outflows could threaten even the modest growth rates expected for 1994.

The sensitivity of the capital account to political events was clearly illustrated last year after the assassination of the ANC's Chris Hani and the ensuing wave of violence.

The deficit on the capital account accelerated from R1,7 billion in the June quarter to R5,3 billion in the September quarter.

In the article — a New Year's message in Finance Week — Keys said the outflows "represent at least a major expression of scepticism on the part of the business sector about our future economic climate".

"Responsibility cannot be laid at the door of this Government, but that does not relieve us of the need to counter this threat," Keys said.

# IMF loan rescues reserves

ARG 8/1/94

74A

**BRUCE CAMERON**
Business Editor

SOUTH Africa's gold and foreign reserves have been rescued by the R2,8 billion IMF loan to jump to a new high of R9 billion for December.

The latest figures show the reserves have improved by more than R2 billion but this is probably attributable to the IMF loan. If the loan had not been made the gold and foreign reserves would, at R6,2 billion, have been at their lowest point since September 1990.

If the higher volume of gold reserves (which have been revalued at a higher price by the Reserve Bank) and the IMF loan are excluded from the total, the country continued to see a serious drain on foreign reserves. On this basis R1,44 billion left the country in December.

The gold reserves, which were up by 11,3 percent in value over November, were valued at R5,6 billion and the foreign currency reserves were up 73 percent at R3,46 billion.

The continued pressure on the reserves is preventing a further fall in interest rates.

# Govt R2bn in debt on forward cover

KELVIN BROWN

GOVERNMENT debt incurred from forward cover sales rocketed R2bn last year as the rand took a beating against the dollar.

This is a turnaround from the situation in 1992 when the Reserve Bank made a slight profit from forward sales. BDAY

The losses arise when the forward rand/dollar exchange rate offered by the Bank is cheaper than the market rate. 17/11/94

The Bank's statement of assets and liabilities indicated the "other assets" item — mostly made up of forward cover losses — firmed more than R2bn over the year.

The losses are regarded as an asset by the Bank as they are for government's account, although the Bank acts as provider of cover of last resort. (74A)

Nedcor chief economist Edward Osborn said it was a reversal of the situation in the 1992/93 fiscal year, when a slight profit from forward cover sales of around R200m was incurred as the rand was more stable.

Last year the rand depreciated more than 11% against the dollar to reach a level of R3,39 to the dollar.

Osborn condemned the current practice of issuing government stock to the Bank to cover these losses as it meant the taxpayer bore the cost twice. "The first cost arose because of the depreciation of the rand which we all suffered from," he said.

Osborn suggested government should rather write off the amount owed to the Bank as maintaining support for forward cover losses was damaging the system.

In the November session of Parliament government was given the go-ahead to issue government stock to the Bank to cover the R8,9bn owed at the time from forward cover losses.

Although the paper was not interest-bearing, the taxpayer would be burdened if the Bank sold the paper into the market, as it would then become interest-bearing, said Osborn.

# Trade surplus slips

CT 18/1/94 (74A)

## SA on track for current account surplus of R7bn

By MAGGIE ROWLEY
Deputy Business Editor

THE SA trade surplus narrowed as expected in December but the current account surplus for 1993 was still in line for a bumper R7bn, economists said.

Figures released by the Department of Customs and Excise show that the trade surplus slipped 4% in December to R1,98bn from R2,07bn in November on the back of a 14% drop in exports to R6,27bn from R7,34bn the previous month.

Imports were down 19% at R4,29bn against R5,27bn in November.

The trade surplus for 1993 was R20,41bn or 38% higher than in 1992, implying that even with an increased level of service payments there should be a healthy current account balance for the year, said economists.

Old Mutual economist Ursula Maritz said the December figures were broadly in line with expectations and the country was on track for a current account surplus of R7bn for 1993.

Although this was a record in rand terms. In dollar terms it represented about $2,2bn — the same level seen in 1991.

According to Safto economist Carlos Teixeira, December's drop in exports could be attributed to a decline in the momentum of growth for precious stones and to an appreciation and stabilisation of the rand in the final quarter of 1993. The rand averaged R3,36 to the dollar in November and R3,37 in December.

He points out that in spite of the decline in exports from November to December, exports last year were 18% ahead of 1992 in rand terms.

This could be partly attriubted to the depreciation of the rand against all major currencies and to the improved gold price which caused the uncalssified good category to reach 22% growth in 1993 over 1992.

Other significant categories which suported export growth included mineral products (up 19%), precious stones (42%), machinery and electrical equipment (31%) and transport equipment and components (16%).

Poor export performers which limited SA's export success were agricultural categories, chemicals, base metals and pulp and paper.

The decline in imports in December was due to a contineud decline in agriculatual imports particularly vegetable products which were down 25%.

In addition the importation of lower volumes and value of crude oil following the lifting of the UN oil embargo and the lower oil price also contributed to the lower imports in December and to the unclassified category of imports showing a 17% decline in 1993.

Imports overall for 1993 were up 12,5% in rand terms over 1992. A drop off in agricultural and oil imports was offset by an increase in imports of cerntain industrial materials and cpaital goods with the greatest growth being seen in chemicals (up 14%), plastics and rubber (17%), pulp and paper (19%), machinery and electrical equipment (15%), transport equipment (35%) and professional equipment (21%).

Southern Life economist Sandra Gordon said that the export of manufactured goods and textiles had been disappointing but the increase in the import of capital goods showed that there were signs of life in the economy.

Gordon and Maritz however forecast a smaller trade surplus for 1994 as the economy picked up resulting in a greater demand for imports.

Maritz said due to the economic upturn, a smaller surplus of between R5,5bn to R6bn could be expected this year as imports were likely to increase. Gordon was even less optimistic forecasting a trade surplus of R5bn for the year.

Besides increased demand for imports there were also signs that the Gross Domestic Fixed Investment Cycle was turning and with a number of large capital intensive projects coming on stream this was likely to put some pressure on the current account surplus during 1994.

They said while exports were also expected to pick up with SA's greater accessibility to world markets and the improvement in world economies, no major improvement was forecast.

According to Safto said significant export markets in 1993 in terms of growth included Africa and Asia.

Exports to Africa, particularly Mozambique and Zamiba increased by 16% in 1993 over the previous year while exports to Asia, whose economic growth continued to astound, rose 17% in the same period.

Significant import markets in terms of growth included Africa, Asia and Europe with SA imports from Africa rising 25% and imports from Europe 13%. Imports from Asia, received a value boost from the depreciation of the rand against the yen.

CURRENT ACCOUNT Fm 21/1/94

## Off balance

**Foreign trade** figures for 1993 show SA had a surplus of R20,4bn. Figures for the other component of the current account of the balance of payments — services — will not be available until the Reserve Bank *Quarterly Bulletin* is published in March. (74A)

Rand Merchant Bank's Rudolf Gouws puts the current account surplus at R6bn, while Nedcor Bank's Economic Unit and Old Mutual's Ursula Maritz, put it at just under R7bn. UAL's Dennis Dykes estimates R7,1bn.

If any of these predictions is correct, the surplus should have been enough to meet 1993 repayments of foreign debt, in and outside the net, worth about R5,2bn (US$1,6bn), says Dykes. But it would not have been enough to match overall capital outflows in the year. By the end of September, these amounted to R10,7bn and December figures for gross gold and foreign reserves indicate the outflow continued.

Confirmation will come from changes in the net figure published by the Bank in March.

Gouws says this year's surplus will end up at around R6bn again. Maritz predicts a surplus of only about R5,5bn, because an increase in economic activity will push up imports. Dykes also believes it will be around R5,5bn. With 1994 foreign debt commitments of $2bn (R7,2bn based on an average exchange rate of $/R3,60), that surplus will be well short of requirements and, if there's a further capital outflow, we could have a balance of payments crisis.

But Maritz stresses this is a worst case scenario. "We should be able to negotiate a few rollovers. And improved exports as the world economy improves, could boost the surplus further."

□ Exports in 1993 reached R79,5bn, an increase of 18,1% compared with 1992. Imports, at R59,1bn, were up 12,4%. However, in currency adjusted terms, the increases are much lower.

According to calculations by Nedcor Bank, at constant 1987 exchange rates, the rise in exports was only 3,4%, while imports rose 1%. The major export category, *unclassified* goods, showed an improvement on 1992 of only 5,7%, against 21,5% in nominal terms, while the figure for gems & precious stones (mostly diamonds), is 22,8% against a nominal 41,6%.

On the import side, unclassified imports

Fm 21/1/94

fell 27,9% in currency adjusted terms, against a nominal fall of 17,3%. And the rise in machinery and equipment, 14,9% in nominal terms, was only 3,7%. (74A) ■

# Interest payments on debt 'to rise'

CT 24/11/94 (74A)

From SAMANTHA SHARPE

JOHANNESBURG. — Interest payments on foreign debt are set to rise, ending the declining trend which gave SA some extra fat on the current account of the balance of payments over the past few years, economists predict.

The latest Reserve Bank Quarterly Bulletin shows interest payments on non-direct investments at R5,23bn in 1992 (the latest available figure), down from R5,6bn in 1991 and R6,11bn at the 1990 peak.

## Reduced

Economists expect the interest payments on foreign debt to increase to R5,5bn in 1993 and attributed the past trend in falling interest payments to debt redemption and falling international interest rates.

"There has been a fall in the quantum of foreign debt," said Rand Merchant Bank economist Rudolf Gouws. This had obviously reduced the size of foreign debt interest payments.

The bulletin put total foreign debt in 1992 at $17bn, down from the previous year's $18bn. However, SA's rand-denominated foreign debt rose, with offshore investment in JSE gilts at R1,6bn last year.

Nedcor chief economist Edward Osborn forecast an increase in interest payments to R5,5bn for 1993.

"Although there was a redemption in the capital amount of foreign debt, this could be offset by the increase in non-resident holdings in gilts," he said.

Osborn further attributed the rise to the depreciation of the rand, which made interest payments to foreigners more expensive, and to the relatively small falls in foreign interest rates last year.

## Surplus

Economists project the current account surplus for 1993 at R6bn to R7bn, and expect it to fall by about R1bn in 1994.

Simpson McKie economist Graham Boyd said there was talk that interest payments on debt were high in December and that this contributed to the low levels of foreign reserves. The issue of investment in gilts was a relevant one, he said.

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B/Day . 24/1/94

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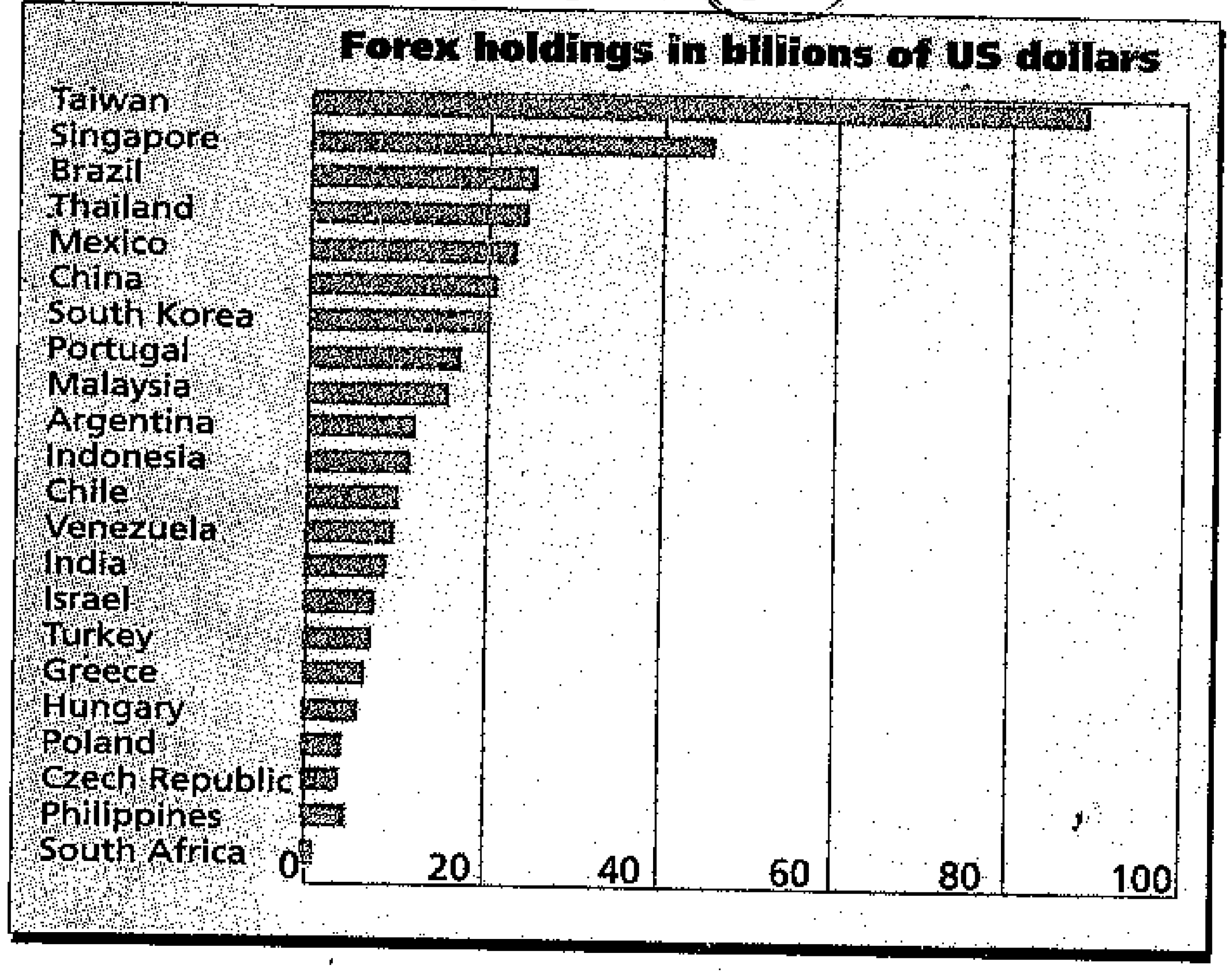
*Vital pre-election decisions needed*

# A testing time in store for the ANC

Star 26/1/94

(74A)

**BY DEREK TOMMEY**




The ANC is probably going to have to demonstrate its ability to govern even before the April election.

Figures issued by the Governor of the Reserve Bank, Dr Chris Stals, show that South Africa is facing a serious balance of payments situation. He has called on the ANC to help resolve it.

Stals says South Africa had a capital outflow of R5,3 billion in the first six months of last year and a further outflow of R10 billion in the second half of the year.

But South Africa does not have the foreign exchange to finance the outflow.

At the end of December, South Africa had total gold and foreign assets of R9,1 billion, of which R3,5 billion was in cash and R5,6 billion in gold.

The cash element will not go far in meeting a capital loss of, say, R2 billion a month, and, at the same time, finance other normal capital movements — such as the R1,7 billion so-called "bullet" debt standstill payment falling due next month.

The Reserve Bank could possibly borrow more from abroad.

But the low level of reserves could make borrowing difficult and expensive.

The accompanying graph, based on figures issued by The Economist magazine, shows that SA's foreign exchange reserves are already minimal, compared with those of other "emerging market" states.

Any further decline in the reserves could result in a slump overseas in confidence in SA, a major slide in the exchange rate of the rand and a steep increase in inflation.

It is clear that if the outflow continues at the July-December rate, some counter-measures will be needed.

This is where the ANC comes into the picture. Much of the outflow is being attributed to uncertainty and fear about ANC policy after the election, which it is expected to win by a huge majority.

This means the ANC needs to do its utmost to reassure those who have moved money out of the country, or are contemplating doing so, that they have nothing to fear from an ANC victory.

Failure to build confidence in its policies could force the Reserve Bank to announce measures — some of which it is likely to be most unwilling to undertake — aimed at supporting foreign exchange reserves.

One of the difficulties the Reserve Bank would face is that most of the money leaving the country is doing so legally — as in the form of dividends.

SA boasts that there are no restrictions on the payment of dividends to foreign investors. To try and stop these payments would be a major blow to new foreign investment.

Other money is believed to be going out in the form of repaid loans, even though at current interest rates here and Reserve Bank forward cover charges, it is still cheaper for firms with access to foreign markets to borrow abroad than locally.

Overall, it seems the only positive course of action open to Stals would be to increase interest rates in the hope of attracting money back to SA.

But with the economy showing signs of recovering, he, and for that matter the ANC, would probably be most reluctant to follow such a policy.

It is time, therefore, for the Government, the Reserve Bank and the ANC to get together to try and resolve the problem without further harm to the economy.

# Stals: Foreign creditors offer SA 'new credit'

74A CT 27/1/94

From GRETA STEYN

JOHANNESBURG. — Foreign creditors had indicated they would provide some new credit when SA met the R1,7bn "bullet" payment of standstill debt next month, Reserve Bank Governor Chris Stals said yesterday.

In an interview in Pretoria, he predicted SA would meet the payment with relative ease, largely because of the likelihood of agreements between individual SA debtors and foreign banks. These were private arrangements between the parties involved, not part of the official debt negotiations handled by the government and the Bank.

However, SA's creditors had indicated to the Bank they would not take all the money that fell due in February.

Stals could not speculate on how much would actually be paid next month, but said it would be substantial enough to affect the foreign exchange markets and money market liquidity. The Bank would intervene to smooth wild fluctuations in currency exchange rates and short-term interest rates, if necessary.

Also easing SA's pain in February would be the R2,8bn IMF loan, which had been paid out, Stals said, and the Bank's substantial short-term foreign credit facilities. He acknowledged the Bank's foreign currency "overdrafts" had probably risen from last September's figure of R2,6bn in the red during the tough last three months of 1993. However, the figure fluctuated considerably.

Economists said the outstanding Bank "overdrafts" meant any improvement in foreign exchange reserves would be used to extinguish these debit balances before building up a new currency stock.

The "bullet" payment falls due in terms of a final arrangement on about $5bn of debt left over from the moratorium declared in 1985. Soon after the final arrangement was completed in September, the ANC began raising the idea of "side-letter agreements" with individual banks.

The standstill debt is not government debt, and debtors include private companies and parastatals.

While he did not envisage serious difficulties in the short term, Stals said SA could not continue exporting capital at the rate it had been without plunging into deep trouble.

# Debt payment likely to bring in new credit

GRETA STEYN

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## New credit

B/Day 27/1/94

☐ From Page 1

rate it had been without plunging into deep trouble. Ultimately, the country's economic growth rate would suffer if huge capital outflows continued. (74A)

On monetary policy, he said the Bank would announce new money supply growth targets in the next few weeks. The Bank was not yet concerned about the recent rapid rates of growth in money supply, as they were a sign of life in the economy. Stals expected only marginal changes to the money supply guidelines, if any, but said a decision would be taken only once December's figures were available.

He was also not concerned yet about signs that producer inflation was picking up, and said the central bank had to accept that cyclical factors would push inflation up again. The Bank was following a gradualist approach to combating inflation, aiming at pulling down the upper and lower turning points of the cycle.

# Surplus tipped for '94

(74A) ARG 29/1/94

## Capital concerns sour current bounty

■ Imports and the outflow of foreign exchange are on the rise, but the news is not all bad.

**ALIDE DASNOIS**
Business Staff

THE current account of the balance of payments should show a surplus of between R5 billion and R6 billion in 1994, in spite of increased imports, says Sanlam economist Johan Louw.

In the latest issue of Sanlam's *Economic Survey* he said merchandise imports had shown a sustained upward trend even during the recession. This could be partly ascribed to special factors such as the purchase of aircraft, but it also showed the high import propensity of the South African economy. Rising imports could quickly put pressure on the balance of payments once the economy shows stronger growth, he said.

Fortunately this should be offset by the lifting of sanctions and the recovery of the industrialised economies which will boost exports.

However, the state of the capital account is less reassuring: The net outflow of foreign capital reached record levels last year.

Most of the R10,7 billion outflow recorded in the first nine months was short-term capital, which accounted for R9,4 billion. Mr Louw attributed this to leads and lags of foreign payments and receipts encouraged by a stronger dollar and weaker rand; political unrest and uncertainty and the fact domestic trade financing was easily available and cheap.

Net outflow of long-term capital was mostly the repayment of foreign debt.

Mr Louw said though foreign debt commitments were heavy for 1994, the balance of payments should improve because of the lifting of financial sanctions and better access to international institutions.

But the chances of a cut in interest rates in the first quarter were slim because of the low level of gold and foreign reserves. In the second half of the year the bank rate will be reduced from 12 percent to 11 percent, he predicted, as inflation drops further.

"The current real prime overdraft rate of nearly 6 percent is relatively high. And if the expected decline in the inflation rate to about 6,5 percent in April materialises, it will be 8,75 percent — extremely high for this stage of the business cycle."

# Stals predicts reversal in capital drain

S/Times (Buss) 30/1/94

(74A)

By CIARAN RYAN

RESERVE Bank Governor Chris Stals expects the capital outflows which have drained the foreign-currency reserves to reverse soon after the April election.

The reversal is expected to help the government to scrap the financial rand, possibly before the end of the year.

Foreign investors say the financial rand is a major disincentive.

Dr Stals says the return of political confidence after the election will boost foreign investors' expectations and stem the capital haemorrhage which drained the reserves of nearly R15-billion last year.

Political uncertainty encouraged corporate borrowers to accelerate repayment of foreign loans, says Dr Stals.

The fall in the gold and currency reserves was exacerbated by an unwillingness to raise new loans abroad.

SA borrowers pay 3% above the London inter-bank offered rate (Libor) because of political risk, making it uneconomic to borrow abroad.

This placed upward pressure on interest rates because borrowers were tapping SA funds to repay foreign debt.

Dr Stals says: "We must make use of the first opportunity to get rid of the financial rand. But we must be sure that there is a sustained improvement in foreign reserves.

"In the short term, scrapping the financial rand could have negative consequences. There is still a considerable pool of financial rand deposits held by banks waiting to leave the country.

"This will drain reserves in the short term, but in the longer term, capital flows should reverse. We have to be sure that we have sufficient foreign reserves to bridge us over the short term."

The pool of financial rand deposits held by commerical banks — comprising non-resident liquidated investments waiting to leave — fell by nearly R6-billion last year as foreigners poured funds into SA. At R2,5-billion, they compared with R8,5-billion in December 1992.

Net investment through the finrand has no bearing on the balance of payments, however. It was in deficit for most of 1993 because of the capital outflow.

Scrapping the finrand would bring these investment flows onto the capital account of the balance of payments, helping to bolster the reserves.

Dr Stals told a conference in London this week that the new government would have to make a clear statement about economic policy to stem the capital outflow.

ANC economics spokesman Trevor Manuel says the Macro-Economic Research Group (Merg) report, although not ANC policy, and the reconstruction and development programme (RDP), provides sufficient clarity on proposed policies.

Many of the Merg recommendations are expected to form ANC policy. The RDP commits an ANC government to huge infrastructural development without broadening the fiscal base.

The Transitional Executive Committee has assured the International Monetary Fund that government borrowing in the next fiscal year will fall to 6% of gross domestic product from last year's 9%.

"Capital outflow is not a new phenomenon," says Mr Manuel. "Whenever the country has gone through periods of political crisis, capital has left the country. For this to reverse we need political and macro-economc stability."

The Customs system, which "leaks like a sieve", and the high incidence of over- and underinvoicing contribute to capital outflows.

Mr Manuel says experience in Latin American countries shows that capital which leaves a country in time of political uncertainty comes back once stability returns.

Mr Manuel says no date can be put on scrapping the finrand.

Dr Stals says the reserves should improve in the second half of the year.

# R7bn borrowed to shore up reserves

JOHANNESBURG. — The Reserve Bank and government had borrowed more than R7bn last year to shore up ailing gold and foreign exchange reserves, Reserve Bank governor Chris Stals said yesterday.

Addressing the Johannesburg chapter of the UCT Graduate School of Business, he said the figure included the R2,8bn borrowed from the IMF. However, economists noted that more than R4bn had been borrowed over and above the IMF loan — compared with less than R1bn in 1992.

Net reserves declined sharply despite a current account surplus of about R6bn, indicating a net capital outflow for the year of more than R14bn.

Stals said neither the balance of payments situation, nor the present status of the fight against inflation could justify an expansionary monetary policy. "The current situation rather begs the question how restrictive monetary policy should be."

The Bank had in the past nine months "leaned against the wind" to prevent a sharp rise in domestic interest rates and an equally sharp depreciation of the rand. But the Bank could not continue its support operations indefinitely.

CT 4/2/94

At this stage, the Bank felt justified in providing additional liquidity to prevent exchange rates and interest rates from reacting inordinately to underlying market pressures. The Bank believed the recent large capital outflows would cease by the middle of the year, and that there would be some inflows in the second half of 1994, or at the latest, early in 1995.

"The present pressures on the exchange rate and on interest rates are hopefully of a temporary nature, although this temporary period can turn out to be rather long for comfort."

At the end of January, the Bank's total liquidity accommodation to the banks was R5,6bn — over and above R6bn of government deposits placed in the money market. Without this assistance, short-term interest rates would have been at a much higher level, Stals said.

74A

# TEC to devise loans strategy

CT 15/2/94 (74A)

**Own Correspondent**

PRETORIA. — A new foreign loans strategy for South Africa is currently being prepared by the TEC's sub-council on finance.

Recommendations have already been forwarded to the sub-council by the Department of Finance.

Finance Department director-general Mr Estian Calitz said yesterday that, given the current interest in South Africa and the imminent lifting of sanctions, "we should utilise the opportunity to access international financial markets as soon as possible".

The details of the "Calitz loan issue", as it is called, would be determined by a sub-committee, a spokesman for the six-member sub-council said yesterday.

The sub-committee, which is likely to be established this week, will be co-convened by the ANC's deputy director of economic planning Mr Tito Mboweni and Deputy Finance Minister Mr Theo Alant.

Aside from framing the loan strategy, the sub-committee will be responsible for appointing one or two banks as "lead" advisers, as well as assembling a consortium of banks to handle the foreign loan issue.

## Banks to get equal chance

The consortium would give all local and international banking institutions an "equal chance", the sub-council spokesman said.

The first task of the "lead" banks would be to establish an international rating for South Africa's credit-worthiness.

A sub-council source said any loan issue required a period of preparation in whih the various options were weighed up and the sentiment of the markets gauged.

Timeous preparations put South Africa in a position to make the best choice available regarding the size and timing of the issue in relation to the country's financing requirements.

These requirements included the repayment of the R2,8 billion IMF loan, the settling of the $5bn (R17bn) debt left over from the 1985 standstill, and the new loans contemplated by the sub-committee.

Any delay in going to the international markets following the April election should be motivated by market conditions and not by the need to finalise the details and objectives of a new foreign loans strategy, the source said.

It was important South Africa took advantage of current market optimism and interest to protect long-term reserves at an affordable cost.

"We are looking for cheap loans at favourable terms," the sub-council spokesman said.

Possible loan issues could derive from the European market, where loans redeemable over a five- to 10-year period were available, or from the US market, where 20-year loans could be secured.

"It could go either way or a different route altogether, depending on market sentiment," the source said.

The sub-council, on advice from the sub-committee, is required to motivate the new loan strategy "fully" before the TEC because of its long-term implications for South African finances.

# New foreign loan plan in pipeline

B/Day 15/2/94.

ADRIAN HADLAND

PRETORIA — A new foreign loans strategy for SA is being prepared by the TEC's finance subcouncil.

The Finance Department has already sent the subcouncil recommendations on the logistics of designing a new strategy.

Finance director-general Estian Calitz said yesterday that given the current interest in SA, "we should utilise the opportunity to access international financial markets as soon as possible". (74A)

Termed the "Calitz loan issue" by the six-member subcouncil, a subcommittee will determine the amounts, sources and exact date of the issue.

A subcouncil source said the subcommittee, which is likely to be established this week, would be co-convened by ANC deputy economic planning director Tito Mboweni and Deputy Finance Minister Theo Alant.

Aside from framing the loan strategy, the subcommittee will be responsible for appointing one or two banks as lead advisers, as well as assembling a consortium of banks to handle the foreign loan issue.

The consortium would give all local and international banking institutions an "equal chance" of participation and would include those institutions that had "supported the struggle" by implementing sanctions strategies, the spokesman said.

The first task of the "lead" banks would be to establish an international rating for SA's creditworthiness.

A subcouncil source said any loan issue required preparation to weigh up various options and gauge market sentiment.

SA's financing requirements included repaying the R2,8bn IMF loan, settling the debt of $5bn left over from the 1985 standstill agreement, and new loans.

Any delay in going to the international markets after the April elections should be motivated by market conditions, not by the need to finalise a new foreign loans strategy, the source said.

□ To Page 2

## Loans

B/Day 15/2/94

□ From Page 1

It was important for SA to take advantage of current market optimism and interest to protect long term reserves at an affordable cost. "We are looking for cheap loans at favourable terms." (74A)

Possible loan issues could derive from the European market, where loans redeemable over a five-to 10-year period were available, or from the US market where 20-year loans could be secured.

"It could go either way, or a different route altogether, depending on market sentiment," the source said.

The subcouncil, on the subcommittee's advice, will have to motivate the new strategy to the TEC because of its implications for SA's finances.

# Stals sees slowdown for capital outflow

(74A) ARG 16/2/94

Business Staff ARG

JOHANNESBURG. — The Reserve Bank avoided a sharp depreciation of the rand last year by the net sale of more than R8,5 billion of foreign exchange, Reserve Bank Governor Chris Stals said here.

At the same time, substantial assistance was provided to the domestic money market to prevent interest rates from rising sharply.

Addressing the Frankel, Pollak, Vinderine annual investment conference yesterday, Dr Stals said the intervention was based on the assumption that the balance of payments (BoP) pressures were external and would dissipate in the second half of this year.

The net result was that the rand exchange rate depreciated by 8,7 percent in nominal terms in 1993 and by only 4,7 percent after adjustment for the inflation differential between South Africa and its major trading partners.

Dr Stals warned, however, that should the net capital outflows of the past year continue unabated in the year ahead, it would be difficult for the Bank to continue to "lean against the wind".

Dr Stals said gross gold and foreign exchange reserves at end-December were just over R9 billion.

However, encouraging signs that the capital outflows would diminish later this year included:

- The fact that non-residents last year were net buyers on the Johannesburg Stock Exchange for an amount of R4,5billion;
- The willingness of foreign institutions to continue to make short-term temporary finance available — credit facilities had recently increased to about R10 billion;
- The possibility that public sector borrowers could return to private placement and public issue markets in the not-too-distant future with access to the capital markets of Europe, Asia and the US; and
- The re-involvement of the World Bank and other multi-national financial institutions, which could inject new funds.

Turning to exchange control, Dr Stals said he recognised that it deterred foreign investment, but felt the timing of its abolition was tricky.

"Somewhere in the future we hope to be able to take the plunge, but we would like to first see the money and build up reserves before we take the next step."

BUSINESS DAY, Thursday, February 17 1994

# Market untroubled by debt repayment

KELVIN BROWN

THE R1,7bn "bullet" payment made by SA to its foreign creditors on Tuesday had less of an effect on the level of liquidity in the local money market than had been expected.

In terms of a deal to repay the remaining $5bn of foreign debt caught in the 1985 standstill, SA had to pay an initial lump sum of $500m to its foreign creditors on February 15.

The size of the repayment was expected to cause a drain on liquidity in the local money market. Dealers had anticipated banks would need to borrow R2,5bn from the Reserve Bank to cover shortages on the day the payment went through.

However, latest Reserve Bank figures disclosed that daily borrowings from the Bank — known as the money market shortage — had reached R2,2bn on Tuesday from R1,3bn at the end of last week.

Analysts said the shortage appeared to be lower than anticipated, as up to $100m of the bullet payment could have flowed straight back into the market after foreign creditors agreed to lend some of the money back to SA.

The Public Investment Corporation, which made the bullet payments on behalf of government and corporate debtors, also appeared to build up the necessary dollars over the past few weeks to diminish the impact.

Market players noted it had become more and more difficult to get hold of dollars for trade finance and working capital in the weeks leading up to the bullet payment.

Dealers said the money market shortage on Tuesday would have been much worse had it not been for government salary payments that traditionally went through in the middle of the month and the payment of interest on certain government stock on the day. Salary payments usually pumped around R500m into the market.

(74A)

# Payments head for $2bn shortfall

S/Times (Buss)

**By CIARAN RYAN**

SOUTH Africa is preparing to re-enter the European capital markets to cover foreign debt commitments of nearly $2-billion this year. (74A)

The borrowings are needed to avert a balance of payments crunch resulting from dwindling reserves and a reducing current account surplus. The TEC sub-council on finance is preparing a loan strategy, paving the way for SA's re-entry into overseas capital markets. 20/2/94

SA still pays up to 3% above the London inter-bank offered rate (Libor) because of its high political risk.

The surplus on the current account of the balance of payments is expected to be about $1-billion, half the maximum debt obligation of $2-billion.

Nedcor chief economist Edward Osborn says the payments crunch will be more acute because the economic upturn is reducing the current account surplus.

"We will need to roll over a large part of the debt which falls due this year," says Mr Osborn. "We are in the ridiculous position as a developing country of having been locked into redeeming our foreign debt to nothing. It is imperative that loan rollovers and replacement borrowings be arranged."

However, there was little but good economic news this week, with Finance Minister Derek Keys predicting growth of between 3% and 4% for the year.

The economy grew by an annualised 6% in the last quarter of 1993, largely due to an annualised 87% turnaround in farming income.

Mr Keys says SA's reserves were unruffled by this week's bullet payment of $500-million to foreign creditors.

Reserve Bank Governor Chris Stals says a clear statement of economic policy by the new government would allay foreign fears and contribute to a reversal of capital outflows. This could permit scrapping of the financial rand before the end of the year.

# Denel wares in Singapore

STEPHANE BOTHMA

PRETORIA — Local armaments manufacturer Denel is promoting a distinctly non-military product — the low orbiting Greensat satellite priced between R200m and R900m — at the Asian Aerospace '94 airshow in Singapore.

The Rooivalk attack helicopter developed by Denel is not on show.

At a media conference in Singapore, Denel MD Johan Alberts said his priority was to seek alliances.

"We do not want to only supply products in the region. We have committed ourselves to forming joint ventures with reputable companies."

Denel was looking to the Asia Pacific region to help the company achieve a balanced military and commercial portfolio of products, he said.

Referring to the Rooivalk, which had attracted much attention at the Dubai and Malaysia airshows last year, Alberts said modifications were being made to the helicopter to suit major customers.

Instead, Denel was promoting the Greensat, which was a much cheaper option than similar available systems in the market.

# New farm produce marketing plan

B/Day 23 12 94

STEPHANE BOTHMA

PRETORIA — A single agricultural marketing policy, which would serve and provide market access to the commercial and developing agricultural sectors, had been endorsed by Cabinet in principle, Agriculture Minister Kraai van Niekerk said yesterday.

But the future existence of single-channel marketing schemes and boards had not been ruled out. (23)

Agricultural marketing had to be structured to prevent interference with market forces and to restrict state interference, Van Niekerk told the Agrocon '94 conference held at the CSIR.

He said he supported recommendations by the agricultural marketing policy evaluation committee that marketing policy be reformed.

The guidelines drawn up by the committee were significant in the light of the changing political, economic and social environment in which agriculture would have to operate.

He had submitted the committee's report to Cabinet and it had, in principle, endorsed the report's framework and guidelines.

The committee had recommended one agricultural marketing policy for SA, in line with the market-driven national economic policy.

Although the Bill of Rights provided for the right to take part in economic activity without constraint, it did not prohibit measures to improve quality of life, economic growth and human development, Van Niekerk said.

For these and other reasons it was possible to justify limited state intervention, and single-channel marketing schemes and boards had therefore not been ruled out.

Van Niekerk said he supported the restructuring of the National Marketing Council if marketing regulations were transparent, were supported by affected parties and were applied without political interference.

The committee had recommended that the National Marketing Council represent commercial and developing agricultural producers, trade and industry and the consumer. This would enable the council to ensure marketing regulations and statutory levies were fairly applied.

Van Niekerk said SA was prepared for open world markets brought about by the successful completion of the Uruguay Round of GATT.

Although SA had had to make certain concessions to take part in a more disciplined international trade environment, the long-term benefits far outweighed short-term disadvantages, he said.

The Uruguay Round implied a levelling of the playing fields. An increase in world prices of most agricultural products was expected. "This will strengthen the comparative advantages of SA products internationally and domestically."

# 'Caution' on regional trade membership

B/Day 23/12/94

ADRIAN HADLAND

PRETORIA — SA should be cautious about which regional trade organisations it joined and what kind of regional trade policy it pursued, Sacob economic policy director Ben van Rensburg said yesterday at the Agrocon '94 conference.

The drawbacks as well as the benefits of different approaches in regional co-operation should be carefully considered.

"A reality is that trading patterns in sub-Saharan Africa do not point to major gains from the creation of regional trade blocs," he said. This was underscored by the fact that internal regional trade was less than 5% of the region's international trade.

Major political obstacles existed between member countries of the Preferential Trade Agreement and the Southern African Development Community. These obstacles could be seen to be thwarting the development of the region.

Van Rensburg said the trade agreement focused on the promotion of trade through the reduction of tariffs, whereas the development community had the more ambitious goal of developing production in a more co-ordinated manner. (2442)

The results achieved by both organisations had been dismal — interregional trade had fallen from 5,6% in the early 1980s to 4,6% by the end of that decade.

Van Rensburg questioned whether either organisation was an appropriate vehicle for SA's attempt to normalise trade and economic relations.

He said the obvious discrepancy in levels of economic and infrastructural development between SA and the rest of the sub-continent could prove harmful to attempts at regional integration. Regional co-operation could be a preferable first step.

The answer could lie in the creation of a council of southern African leaders, similar to the OECD, which would meet annually to plan a programme of co-operation toward the upliftment of the regional economy and pinpoint priorities for infrastructural improvements.

Improved links with Europe, which was SA's most important trading and investment partner, should also be considered. (7449)

The strengthening of SA's ties with Europe "could be the key to opening the door to a prosperous future for southern Africa," Van Rensburg said.

# R1,7-bn 'bullet' debt payout dents reserves

(74A) ARG 8/3/94

**BRUCE CAMERON**
**Business Editor**

AN improving balance of trade probably cushioned the country's reserves against a R1,7 billion repayment of foreign debt in February.

The repayment was the first in terms of the "final" debt arrangement signed last year with foreign creditor banks to repay by 2001 the remaining R18 billion debt trapped in South Africa after the declaration of the debt standstill in 1985.

Latest Reserve Bank figures show the country's gold and foreign exchange reserves shrank by almost four percent to R8,8 billion in February this year compared to R9,125 billion in January.

Foreign assets fell by 6,7 percent to R3,314 billion from R3,552 billion mainly as a result of the R1,7 billion "bullet" repayment of foreign debt.

Gold reserves eased 2,5 percent to R5,485 billion from R5,573 billion as its physical holding of bullion declined by over 107 000 fine ounces to 4,6 million fine ounces.

The value of gold holdings increased by R8,30 to R1 181,72 a fine ounce.

A deputy governor of the Reserve Bank, James Cross, said in interview earlier this month it was likely that the reserves would take a substantial knock as a result of the continuing withdrawal of money from South Africa by foreign banks and the debt repayment instalment because of improved trade figures.

The trade figures would not be known for a few months.

However, economists said today the Reserve Bank had also appeared to have used its foreign credit lines while it had also sold gold holdings to protect foreign currency reserves.

It was estimated the Bank had raised about R700 million in foreign credit lines.

The country still faces another R5,1 billion in debt repayments this year, but it is expected that after the elections South Africa will be able to reaccess foreign capital markets, paying less onerous rates of interest.

The Transitional Executive Council sub-council on finance established a technical committee earlier this year to investigate the position.

The technical committee is to formulate a borrowing strategy, start negotiations and identify possible underwriting foreign bank and select banks to lead manager future loans.

The commitee is also considering having South Africa rated which would give the country direct access to the United States and Japanese bond markets relieving the dependence on the Eurobond market.

Unlike the Eurobond market, which operates out of Frankfurt or London, dealing in the Yankee (United States) and Samurai (Japan) markets require official ratings.

An official rating could also reduce the interest rates paid by South Africa.

It is however unlikely that the government will go ahead with obtaining a rating or a foreign loan before the elections because of South Africa's current high political risk profile.

# Capital outflows are smothering economy

ARG 9/3/94 (74A)

**Business Staff**

TWO distinct views are on short-term offer for the South African economy – the one positive and the other negative, says First National Bank (FNB).

"The arbiter will be the manner in which the political transition is conducted and which economic and social policies are adopted," the bank says in its latest Business Brief.

Weighing in on the positive side are the financial markets, gripped in 1993 by "an overwhelming euphoria" for nearly the entire spectrum of main financial assets.

FNB notes that in 1993 the All Gold share index on the Johannesburg Stock Exchange (JSE) tripled over the year; the industrial index rose by 40 percent, nearly all of it in the last seven weeks of the year; and capital market long yields went from above 15 percent to just below 12 percent.

And 1994 is generally expected to repeat the 1993 performance.

For the emerging market enthusiast, South Africa should remain a ready-made dream for a little longer, it says.

"Relatively low price-earning multiples by world standards (especially when leveraged with the financial rand discount), the beginning of economic recovery, a first world institutional framework, and the magic wand of political economic and social reform make for a potent brew."

And if political transition retains stability and deepens socio-economic reform in a financially responsible way, the real boom is still to begin.

The negative view is represented by a record net capital outflow of R15 billion (4,1 percent of GDP) last year, representing mainly a lack of confidence in the future by the business sector.

"Last year saw an estimated current account surplus of R7 billion and a net capital outflow of R15 billion leaving the R8 billion gap to be met through a run down of reserves and increased foreign borrowing by the Reserve Bank.

"Quite clearly this is not a game that can be endured indefinitely before one runs out of reserves and borrowing capacity."

FNB says the lack of confidence includes the fear of expropriation, reduced freedom, higher taxation and reduced valuation due to excessive currency depreciation.

But the "export" of R15 billion of capital through the commercial rand contrasts sharply with the positive view of the financial markets where over R4 million was purchased by foreign investors alone through the financial rand.

"There are certainly two views on offer and it is unlikely that both can be right, except if the financial markets are acting with the next quarter in mind, while the capital exporters are focusing on the next decade or even generation."

FNB cautions that if the net outflow of capital does not cease, the economic recovery cannot proceed, the financial market boom will falter for a variety of reasons, and a serious question mark could be put behind the entire political and social reform – at least in the short term.

The main features that should contribute to the next business cycle upswing have been identified for some time, it says.

"They include agricultural recovery (1993-94), select private investment projects (1994-96), the cumulative impact of nominal interest rate reductions (194-1996), public sector investment in social infrastructure (1995/97) and world economic recovery and exports (1995-97).

"Through multiplier effects, this should create additional employment and disposable income supporting a gradual increase in general consumer spending and inventory levels.

"As basic capacity becomes more fully utilised and confidence levels recover a more general and broadbased recovery in private fixed investment may also follow."

But much depends on the quality of the next political dispensation and the eonomic policies it decides to follow.

"For the first four months of 1994, the uncertainty of the pre-election reality is likely to dominate, as reflected in the sentiments driving last year's capital outflows.

"For the remainder of the year, the dominant feature may remain uncertainty as the new government grapples with political intricacies and time may have to pass before effective government finally starts to get a grip on things."

FNB says it may therefore be premature to hope too much on a general economic revival in 1994 with 1995-97 offering better prospects.

# Trade surplus disappoints

74A

CT 19/3/94

By AUDREY D'ANGELO
Business Editor

RISING imports limited the increase in SA's trade surplus to a disappointing 2,23% in February, after a steep fall in January. It was R109bn compared with R1,06bn in January and R1,3bn in February last year.

Exports rose by 17% compared with February last year and 14% with January this year. But imports rose more steeply. They were 25% higher than in February last year and 16,9% higher than in January.

Economists, pointing out that rising imports were to be expected during an upturn, said that concerns about the balance of payments (BoP) made a further cut in interest rates unlikely during this quarter.

But SA Foreign Trade Organisation economist Carlos Teixeira said exports were expected to grow faster this year.

And Boland Bank chief economist Louis Fourie said an inflow of foreign capital after the election could remove BoP constraints.

Figures released by the Customs and Excise yesterday showed exports totalled R6,58bn last month compared with R5,76bn in January and R5,37bn in February last year.

Imports totalled R5,49bn compared with R4,69bn in January and R4,04bn in February last year.

Old Mutual chief economist David Mohr said it was a matter for concern that, after the healthy trade surpluses in the last half of last year, the trade surplus this year averaged just over R1bn a month.

On the other hand, there had been a similar trend in 1993. The recovery of the agricultural industry meant that exports could grow.

Carlos Teixeira said Safto's latest survey among export managers had shown that sales and orders in the first quarter "were expected to be subdued in comparison with the final quarter of 1993.

"However it is anticipated that the growth levels reached in 1993 will be surpassed in 1994."

He said that unclassified exports in the past two months were 27,5% higher than in the same period in 1993. This was mainly due to the higher dollar price of gold and the weakening of the rand against the dollar.

"It is encouraging to note that certain manufactured categories which performed badly in 1993 are starting to show some improvement — specifically chemicals, plastics, pulp and paper."

On the import side, improving economic conditions in most sectors caused increased demand for industrial materials and capital equipment.

Imports of machinery were 40% higher than in the first two months of 1993. Transport equipment was up by 39% and high-tech equipment up by 22%.

The lower price of oil was reflected in unclassified imports.

# Relief as capital flight eases off

CT 21/3/94 (74A)

From GRETA STEYN

JOHANNESBURG. — Figures in the latest Quarterly Bulletin suggest that the relentless drain of short-term capital from SA abated in the first two months of this year.

The massive amount of capital leaving the country has tempered enthusiasm over economic prospects, despite encouraging developments in output, spending and inflation. But the latest figures indicate an easier situation at the start of 1994.

The bulletin said there was a "sharp reversal" in the first two months of this year from the slide in net foreign reserves that characterised last year. The Bank's net foreign reserves — which excludes borrowing on foreign "overdrafts" — rose by R1,1bn in January and February.

Also signalling an easing in the squeeze is the Bank's ability to reduce its foreign "overdraft" debt. From R5,3bn in December, the debt has been reduced to R3,9bn at the end of February.

The reduction is all the more surprising since a huge R1,7bn payment in terms of the final agreement on SA's standstill debt was made in that month.

Otherwise, the bulletin paints a picture of an economy taking tentative steps towards a healthy recovery. Encouraging features were the widespread nature of the recovery, the strong exports performance, a rise in fixed investment in the second half of last year, and a revival in personal consumption expenditure.

A sign that firms are anticipating buoyant demand is the rise in inventories. Real investment in inventories rose by R1,2bn last year, against substantial decreases in the preceding three years.

Export volumes rose by 6% last year, with the Bank saying the buoyancy showed the rand exchange rate enabled SA manufacturers to compete successfully. Manufactured products now account for 23,9% of overall exports — compared with less than 16% in 1989. The current account surplus for the year was just under R6bn.

Personal disposable incomes rose marginally in 1993 and the demand for durable goods picked up momentum in the last quarter of the year. Real spending on durable goods rose an annualised 3,5% between the third and fourth quarters but was down for the year as a whole.

Casting a blot on the landscape last year was the enormous capital outflow of more than R16bn. More than 90% was in the form of short-term capital, with long-term outflows accounting for only R1,5bn.

# 'Bullet' payment partly rolled over

(74A) CT 22/3/94

By GRETA STEYN

JOHANNESBURG. — SA debtors secured R500m-R1bn in foreign debt roll-overs in February as creditors with debt inside the standstill net agreed to wait for payment, economists said yesterday.

Reserve Bank Governor Chris Stals agreed with economists' estimates of substantial rollovers in February, when the R1,7bn "bullet payment" fell due in terms of a final agreement on SA's standstill debt. He said creditors had probably converted debt inside the net to loans with longer maturities. The size of the capital outflows in February was all the more encouraging as debts other than the bullet payment had also fallen due.

Foreign exchange reserves had continued to perform "reasonably" this month, but some pressure could be expected at the end of the month as foreign

## Foreign creditors agree to postpone

interest payments fell due, Stals said. The reserves position was not placing downward pressure on the rand.

Economists said a rough estimate for February's rollovers could be obtained by comparing the debt falling due with the fall in reserves after the current account surplus for the month had been added.

The current account surplus, which is the trade balance less net payments for services, was estimated to be low — about R150m at the most, said Ed Hern, Rudolph economist Nick Barnardt.

Another economist noted that the Bank's gross reserves fell about R326m but that the underlying decline was larger, as the Bank had borrowed about R400m to finance the outflow. This meant almost R1bn could have been refinanced.

The move to refinance part of the bullet payment was initiated soon after the final agreement on $5bn was signed in September.

The foreign banks involved were happy to keep their SA exposures unchanged, but were not yet ready to put new finance into the country. Banks were keeping their SA exposures as low as possible ahead of the elections.

The capital market had shrugged off signs that net reserves had improved in the first two months, preferring to focus on last year's R16bn capital outflow.

# Shaft closure scraps 2 130 jobs

(21) ~~CAH~~ CT 22/3/94

Own Correspondent

JOHANNESBURG. — Impala Platinum (Implats) has closed its struggling No 11 shaft, with the loss of more than 2 130 jobs, as part of its attempt to cut costs in a sluggish market.

The Gencor-owned company said yesterday the R300m shaft had been hit by geological problems, which had cut its output to half of its 1-million ton annual capacity and left unit costs 20% above the group's average.

Implats informed employees of its decision to close the shaft in February.

More finance on pages 14 and 15

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# 'Bullet' payment partly rolled over

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# Govt compiles register of state-backed loans

BIDay 28/3/94

GRETA STEYN

THE Finance Department in October last year started compiling a central register of loans which carry government guarantees, Finance spokesman Badie Badenhorst said yesterday.

Criteria had been drawn up and a circular sent to the directors-general of government departments. The register had not yet been completed, he added.

According to the auditor-general's latest report, central government had guaranteed more than R28bn in loans by other borrowers at the end of the 1992/93 fiscal year. Guarantees have risen by about R5,5bn since 1987.

The guarantees are not strictly part of government debt — the state picks up the tab only if there is a default. But Badenhorst said government had to settle R107m of debt in the 1992/93 fiscal year as a result of defaults on debts for which it had provided guarantees.

Included in the guarantees was about R8,4bn in short-term debts of Transkei, Venda and Ciskei.

Bophuthatswana's short-term debt was not known, but Badenhorst noted that the homeland's government had said it had virtually no short-term debt and, unlike the other "independent" states, would not hand the debt over to the SA government for management.

(44A)

These states' debts will be added to government's debt totals after reincorporation, yielding higher debt-to-GDP ratios.

According to the auditor-general's report, government has contingent liabilities of more than R91bn (including the guarantees on loans). These include central government pension fund liabilities of more than R37bn and about R17bn in the shortfall on the Transnet pension fund.

The Atomic Energy Corporation accounted for more than R800m of contingent liabilities, but the auditor-general noted negotiations were taking place about the amount for which central government would take direct responsibility.

# New govt 'should not pay' SA debt

CT 4/4/94 (74A)

A NEW government should not repay South Africa's "R180 billion" debt, about 500 delegates from across the country resolved at the Workers' List Party (WLP) conference in Salt River yesterday.

The two-day conference, which ended yesterday with a lively debate, was told the debt incurred by the "apartheid regime" with the IMF and the World Bank did not bind a new government.

Other issues which topped the agenda in discussion among four commissions formed on Saturday were women's rights (especially tribal women), compulsory free education up to and including tertiary levels, and housing issues.

Speaking at a news conference yesterday, WLP chairman Mr P Ndlovu said conditions attached to an IMF loan would compel even an ANC-led government to suppress the labour movement.

## Corruption

"Proof of this is that the ANC leadership agreed to a lock-out clause in the new constitution, and the reaction of Cosatu membership. The ANC was able to suppress the planned national stay-away on November 15 last year, but I doubt they will be able to achieve this again."

He predicted "an explosion" of workers against Cosatu leaders and claimed there was a growing trend of corruption among member union leaders.

"The time will come when there will be a schism between workers' aspirations not being met and the government of the day."

Ms Jeanette Masala, Western Cape WLP treasurer, said the WLP aimed to build "a mass workers' party in South Africa". — Staff Reporter, Sapa

# Relief seen for BoP

ARG 12/4/94 (74A)

ALIDE DASNOIS
Business Staff

HIGHER commodity prices could come to the rescue of South Africa's balance of payments (BoP), says the Bank of Lisbon it its latest Economic Focus.

International commodity prices appear to be on the verge of an upturn, says the bank. This would mean a sizeable improvement in the country's terms of trade.

Fears about capital outflows may be exaggerated, it says, since the surpluses on the current account of the balance of payments should remain large "and may even grow bigger", increasing the reserves available to finance capital outflows.

The bank says South Africa is set to benefit from a series of economic windfalls. These include:

- The rand price of oil has dropped 15 percent since the beginning of 1993 and the oil imports bill could drop by more than R600 million this year;
- Good rains point to a further surge in agricultural production this year and a boost for food exports;
- New export orders for manufacturers are "pouring in"; and
- International commodity prices have started to firm.

Many commodity prices, notes the bank, are at historically low levels and a major change in the trend may be in the offing.

"Many manufacturers and other consumers of metals have been keeping their inventories low in the face of weak prices, and could quickly act to replenish stocks once prices begin to firm."

Prospects for world economic growth are improving. Though big stockpiles of industrial commodities are likely to cap demand-led recovery in commodity prices this year, commodity prices in general should rise strongly later this year or early in 1995 as a synchronised recovery in the world economy gets under way.

The prices of some commodities such as coffee are already rising, the bank says, and even base metal prices have started to firm, helped by cutbacks in supply.

Other supply cutbacks in the pipeline could further strengthen some commodity prices. The European Commission is considering cutting back capacity in the European steel industry and cuts in European zinc production are also in the offing.

Aluminium producers also agreed in January ~~to~~ cut output by about 10 percent.

On the demand side, the booming Chinese economy is underpinning higher commodity prices, the bank says.

China is expected to become a net importer of coal and of oil and rising Chinese consumption of products such as antimony and vanadium will strengthen the prices of these commodities.

Though attempts by the Chinese authorities to cool down the economy have led to some reductions in imports, analysts forecast that commodity imports into China will be rising by the second half of this year.

Russian sales are the wild card in the game. The collapse of the Soviet Union and sharply reduced internal consumption has released large amounts of commodities such as zinc and aluminium on to world markets.

But, says the Bank of Lisbon, Russia can probably not maintain current levels of commodity exports onto western markets.

The country does not have the means to modernise its mining industry, stocks of some commodities such as platinum have been running down and subsidies to the industries concerned are likely to be reduced.

# Leniency likely (74A) over SA's debt to UN

ARG 6/5/94

The Argus Foreign Service

NEW YORK. — United Nations Secretary-General Boutros Boutros-Ghali will raise the question of South Africa's arrears in contributions to the United Nations during his visit to Pretoria next week.

Diplomats in New York say there is growing sentiment to scrap the debt, which is about $58 million (about R190 million) for the regular budget alone.

A senior UN official observed that it would be incongruous for the organisation to present a multimillion-dollar bill to Nelson Mandela in his first weeks in office, particularly since the UN is considering substantial financial and other aid for his government.

South Africa's total debt, including peacekeeping accounts, has accumulated to over $90 million (about R300 million) since the delegation was ousted from the UN General Assembly in 1974.

Although South Africa stopped paying dues it still remained a member state.

The ban did not apply to the Security Council or to the delegation's ability to work at the headquarters and obtain documents as well as to communicate its views to the Secretariat and other members on all issues.

Settlement of the arrears question is crucial to South Africa's right to vote in the General Assembly after the delegation's full participation is restored, probably by a formal resolution.

This may also include a provision dealing with the debt.

# Nats stack up R60bn debt in parting spree

S1Times (Buss)

15/5/94

(74A)

By CIARAN RYAN

THE National Party Government sent the national debt soaring by more than R60-billion in its final year of power.

The money was spent on tidying up the nation's books and settling some apartheid debts.

Economists warn that SA is careering to South American-style debt and future generations will bear a heavy burden.

The nine new regions will shoulder part of the R15-billion debt inherited from the homelands.

Finance Director-General Estian Calitz says the regions will be responsible only for "that portion of the debt linked to assets".

Most of it will be taken over by the Government. It is faced with a 13% rise in the interest bill from R20,5-billion in 1993-94 to about R23-billion — the largest item in the next budget.

Mike Brown, economist at stockbroker Frankel Pollak Vinderine, says: "State debt is approaching danger levels. The real problem is the rate at which the interest burden is rising relative to economic growth."

Economist Edward Osborn says the interest burden is running out of control, restricting the new Government's ability to embark on radical spending programmes.

"There is no easy way out. The new administration inherits the problems caused by decades of economic mismanagement. The country is in a public-debt trap."

Total State debt is more than R200-billion, about 55% of gross domestic product. This compares with of R155-billion, or 46,5% of GDP, in March last year.

It is still shy of the internationally accepted ceiling of 60% of GDP.

In a valedictory vote of thanks to public servants, government stock of R7,3-billion was issued to offset the R29-billion actuarial shortfall in State pension funds.

The outgoing Government borrowed R30,5-billion in the past year to balance the Budget, bringing to R45-billion the amount of interest-bearing stock issued for the year. The interest is R4-billion.

Dr Calitz says: "The homeland debts were being serviced all along through transfers from SA and the homelands' own resources. Consolidating the homeland debt does not add to overall expenditure, it merely shifts its location."

Notions that SA is "underborrowed", as suggested by some in the ANC, are rejected by economists.

Mr Brown says: "The reconstruction and development programme will have to be partially funded through the capital markets and this will strain the capacity of the market to absorb new debt issues.

"The Government will have to offer higher interest rates on new stock, adding to the interest burden."

Mr Osborn questions official figures showing the deficit for the year to March to be on target at 6,8% of GDP.

"I suspect that they have fudged the final deficit figure. There is R2-billion of additional expenditure for the provinces which does not appear to have been accounted for."

Mr Osborn predicts the interest bill could be as high as R26-billion in the coming year. Finance officials dispute Mr Osborn's predictions.

Finance Minister Derek Keys says extra-budgetary commitments add R2-billion to the deficit.

News in Brief

## 'Write off debt to UN' 297 74A

JOHANNESBURG. — Finland and the Nordic countries are spearheading attempts to have South Africa's $100-million (about R360m) debt to the United Nations written off, Finland's President Maarti Ahtisaari told the specialist publication Engineering News. CT 20/5/94

Fm 20|5|94

nanced, avoiding unmanageable public debt increases.

"The ANC believes financial institutions should devise financial instruments which channel private savings into areas targeted by the programme ... These instruments should be designed to benefit investors and recipients of the funds."

Some institutions have already designed socially acceptable financial instruments. UAL, for example, devised the Collateralised Housing Investment Paper, known as Chips, to finance low-cost housing. Most say they prefer issuing innovative financial instruments to being subjected to prescribed asset requirements.

Morrison says the ANC's unwillingness, in the long term, to incur debt to finance current expenditure is a result of its fundamental economic principles. "We want an environment that will attract and increase foreign and domestic savings," he says. "Low inflation and an independent central bank are just two aspects of this."

(7449)

**The mortgage danger**

To improve the efficiency of borrowing at government level, the ANC has insisted on the Public Investment Commission's investment activities being separated from its role of financing the deficit.

The new government has inherited a considerable debt problem. It must also meet the expectations of an electorate which will go to the polls again within five years.

All the signs are that SA is in danger of mortgaging its future. The new government will have to make sure it spends only what it has; it must strive for a balanced Budget.

The key to having more to spend is economic growth.

That depends on: an environment of economic and political stability; a genuinely independent central bank; lower taxes; minimal red tape; and the abolition of exchange control. In this way, the new government might just show the world how the rainbow nation also created its pot of gold. ■

THE JSE

# Fingers in the dyke

## Brokers are right to be cautious — but unfair protection cannot last

**Battle lines** are being drawn in the financial community over the efforts of the Johannesburg Stock Exchange (JSE) to reform itself.

And it is not difficult to see why the JSE's proposals for what its executive president Roy Andersen calls "evolutionary change" are generating so much heat. The JSE has long been viewed by part of the financial sector as an entrenched oligarchy, a monopoly protected by statute, dedicated to the protection of its own sectarian privileges.

That description may be too strong, but the JSE certainly generates strong emotions. Brokers are perceived to be members of an exclusive club, membership of which is narrowly defined and enshrined in law. "Being a broker on the JSE," says one senior institutional fund manager, "is like buying a ticket on your own exclusive gravy train. No wonder they are reluctant to propose anything which might weaken their position."

These are criticisms which evoke memories of London brokers before deregulation, smug in their concern with status. As late as the mid-Seventies, Lazard Brothers MD Lord Poole could claim the firm's success was due to a specific policy: "I never lent to anyone who had not gone to Eton."

The JSE's Research Report made public (*Leaders* May 6) recommendations on its future. The report contains a comprehensive list of majority recommendations and — unusually — firmly stated minority positions on nearly all the principal issues.

The really contentious matter, pivotal to the whole argument about how the JSE should operate in future, relates to the nature of trading. Should this continue to be conducted in a single capacity (in which brokers act solely as agents for clients) or should there be dual trading (where brokers can act both as principal and agent)?

The other major issues depend on a resolution of the first. They include:

☐ The application of negotiated commissions (a departure from the fixed commission structure now applied);
☐ The use of fully automated screen trading systems (to replace the present open outcry market);
☐ The nature of broking firms (and the introduction of limited liability to replace partnerships); and
☐ Broadening membership of the JSE (to permit partial corporate ownership of broking firms and to extend membership to foreigners).

The first controversial aspect of the report is in the composition of the research committee. Chaired by company law expert Michael Katz, it was established in April 1992. Soon it was expanded to include a number of external members, representing important financial community interests.

The restructured committee comprised five senior brokers and Andersen and six members from outside bodies, Katz included. "Isn't it ironic," says a prominent member of the Life Offices Association (LOA), "that every broker and Andersen chose the route which became the majority view? The minority opinion (three of 12) was exclusively from outside the JSE. But that's what we've come to expect."


**Andersen**


**Gordon**

The JSE contingent, though, was supported by the LOA's own representative, Old Mutual's Johannes van der Horst, who played a role in formulating many of the majority's philosophical positions.

The majority recommendation is that single capacity trading — where brokers cannot act other than as agents for principals — should continue at least until the introduction of fully negotiable commissions or after the complete dismantling of exchange controls. The distinction is considered laughable by many users of the exchange.

"Nearly every broker," claims a fund manager, "trades to a greater or lesser extent as a principal. The only thing he can't do is deal as such with his own clients. But there's nothing to prevent him from taking stock on to his own books and selling it into the market to another broker.

"Some smaller brokers trade almost exclusively for their own accounts. Yet the JSE now opposes the formal introduction of dual capacity, on the grounds of conflict of interest and the need to protect investors. Rubbish."

Interestingly, Liberty Life chairman Donny Gordon takes a different view from many other outsiders. Gordon is pleased that single capacity trading will be retained. And, though he declines to be specific about his underlying reasoning, it is clear his experience overseas, probably in London — though he refuses to be drawn — is that dual capacity permitted wide doubles (the ability to trade with large margins) to be made. It is equally possible, though, that the example he remembers most clearly concerns a company in his own group — Transatlantic, a comparatively illiquid stock which fell sharply soon after listing.

If the argument about dual capacity trading is seen as the key to the JSE's future, the main issue in the UK was negotiated commeagre 6,7% (10,3%). Czypionka says compared with other countries, SA has significant borrowing capacity abroad.

Domestic borrowing could be limited by using international capital markets at market related rates and borrowing from the World Bank at nominal rates. (The IMF lends only to assist balance-of-payments problems.) Foreign financing should, however, be used to fund projects which increase the capacity to earn foreign exchange, such as export-related projects; and the costs should be carefully considered.

A weak currency — the rand fell 7% against a basket of currencies in the first four months of this year — could have dire consequences for the cost of foreign borrowing. For example, a DM200m issue in 1983 was borrowed at 8%. When this was redeemed in 1993, Osborn calculates the capital loss, plus interest, amounted to a staggering service cost of 55% a year.

Debt trap warning signals are certainly there. But do they show that we have already fallen into the black hole or that we are still teetering on its edge?

Economists' views vary. Osborn says the evidence suggests we have already reached a debt trap; Old Mutual's Floris Bergh believes if current trends continue until the end of the decade, we will fall into the trap; and Van der Merwe says we're not there yet but in dire need of a restructuring of government finances to ensure we don't get there.

He bases his conclusion on the fact that "the ratio of government debt to GDP is not excessive." He says recent increases "shouldn't be allowed to continue" but warns that current debt ratios may be difficult to sustain.

Whether we are in a debt trap or not, the question remains: how do we reduce our significant domestic debt?

Choices for a country already deeply in debt are limited. One unsatisfactory option would be to monetise the debt, the route many countries already in a debt trap are forced to take. Printing money to finance a deficit causes massive increases in money supply and consequent high inflation, usually hyperinflation — the experience of countries such as Brazil and Uruguay.

Only in the past five years has SA got growth in money supply under control. It would be disastrous to undo this hard work to pay off a surging debt. In the late Eighties, annual growth in M3 — the broad money supply aggregate — was galloping towards 30%; this March M3 rose only 12,3%. Inflation during the mid-Eighties peaked over 20%; in March it was 9%.

Another option is to raise taxes, though most agree that tax levels here are already high by world standards, and high taxes harm the economy's job-creating potential.

Privatisation of State enterprises is much more promising. The proceeds could be used to redeem debt and privatisation would also cut government expenditure. (744)

Of course, slashing government expenditure is the most desirable route. The civil service should be cut and old apartheid departments, duplicated to cater for different race groups, rationalised. The Government of National Unity could use its new broom to drastically restructure government finances, particularly spending. It will have the opportunity of reducing staffing in 14 departments of education, for example. But, for political reasons, it is unlikely to cut down the number of bureaucrats.

The aim should be to reduce, and then stop, borrowings to finance current expenditure — though this is also unlikely in the short term.

Czypionka

Osborn says the debt crisis cannot be avoided but must be slowed down by looking at all issues involving public debt and government expenditure and asking whether these are really necessary — "like borrowing abroad when local borrowing is possible or striving to push hopelessly insolvent State pension funds into solvency through the issue of government stock." Instead, members' contributions should be raised.

Czypionka adds: "If we have priority areas, we should cut elsewhere instead of borrowing to fund current expenditure."

Economic growth is the only solution, argues DP finance spokesman Ken Andrew. "We have to create an economic and political climate conducive to investment by making the rewards greater than the risks."

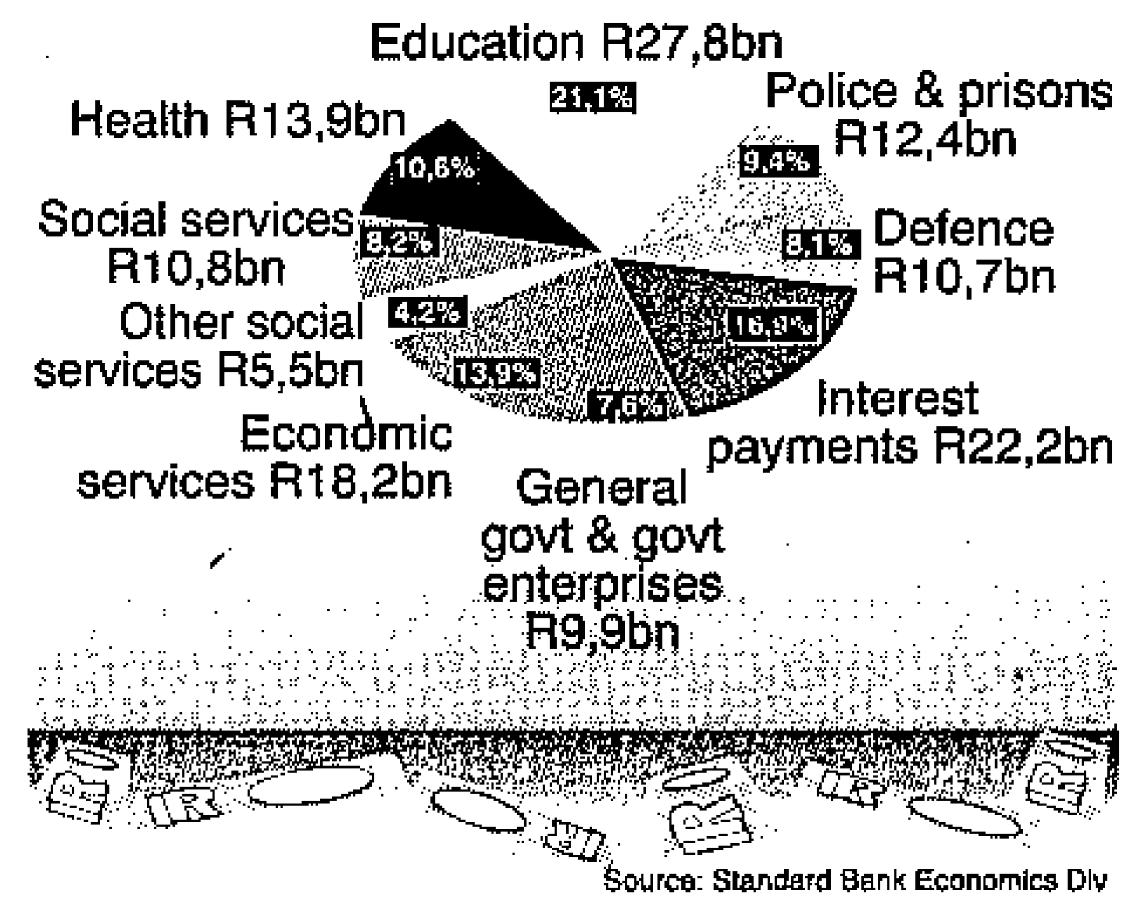
Andrew sees an opportunity for increasing the productivity of expenditure, especially in areas such as education and housing. "We must make our resources more productive and not spend what we don't have."

ANC co-ordinator of money and finance Neil Morrison believes a debt trap can be avoided, despite the enormous demands of the reconstruction & development programme. He doesn't believe the programme need have the ballooning effect on the debt burden that many fear, as long as "sound financial principles are adhered to."

Morrison believes many projects set out in the programme can be virtually self-fi- P.T.O.

**Large interest slice**

Functional classification of government spending 1993/94 fiscal year
Total = R131,3bn




Source: Standard Bank Economics Div

THE NATION

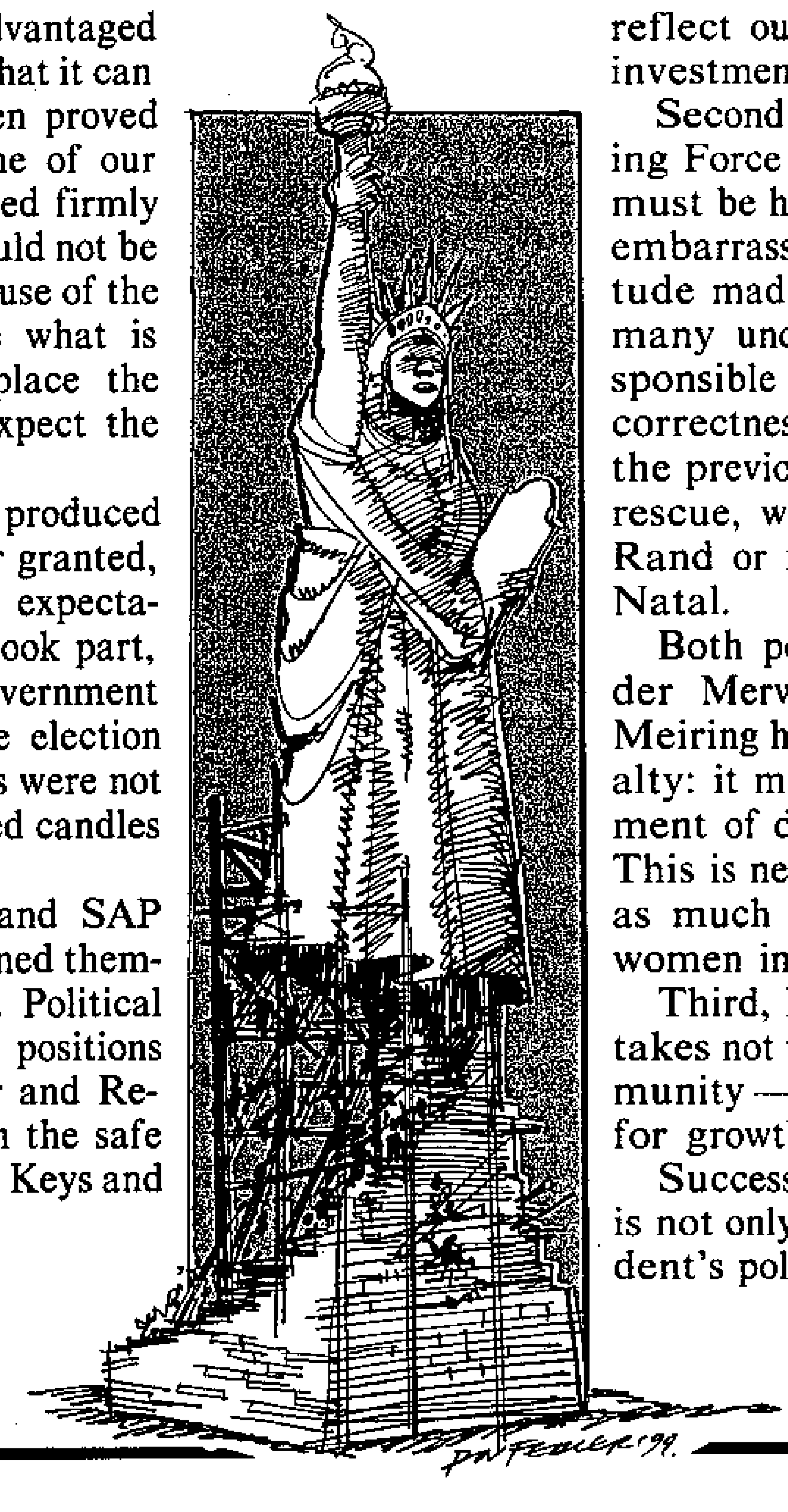
# Controlling the falcon

**The centre** has held; mere anarchy has not been loosed upon the country. Many times in the past few years it seemed that we were poised on the edge of a horror that was never specified, but each time our nerve held and we got through the crisis.

Now we have a democratically elected government after a peaceful (if inefficient) election, the results of which undoubtedly reflected the general political will of the people. The transition process, which began when F W de Klerk became State President in 1989, had a cathartic climax in the 21-gun salute and dramatic fly-past of SA Air Force jets and helicopters at the inauguration of President Nelson Mandela. It was a moment to savour.

Though it all seems so solid now, there was nothing inevitable about it. SA politicians may well have displayed ingenuity (and the ordinary people enormous resilience), but there is nothing especially saintly about us. So why have we not descended into something approximating the nightmares of Bosnia or Rwanda? The reasons are complicated, but the essential explanation is that, when confronted with disintegration, there were enough people on all sides who had too much to lose.

That is why the centre held. And, despite all the gloomy predictions about whether the new government can satisfy the expectations of the disadvantaged masses, there are many reasons to think that it can continue to hold. The experts have been proved wrong many times before; indeed, some of our most eminent political scientists predicted firmly at a conference last November that it would not be possible to hold an election in April because of the violence. We live in a country where what is startling one week becomes commonplace the next, but we have still not learnt to expect the unexpected.



Not only did the election take place, it produced several bonuses which are now taken for granted, but which, in fact, occurred against all expectations. Inkatha and the Freedom Front took part, thus ensuring in advance that the new government would be inclusive and legitimate. The election was peacefully conducted and the results were not greeted with celebratory looting. Hoarded candles and baked beans were not required.

The security forces of the SADF and SAP behaved impeccably throughout and earned themselves a sudden political rehabilitation. Political violence has declined markedly. Two positions vital to the economy, Finance Minister and Reserve Bank Governor, have remained in the safe hands of the previous incumbents, Derek Keys and Chris Stals.

So, while SA has many problems and nobody is under any illusion that the next few years will be anything but difficult, things are much brighter than they seemed in the months before the election. That period, in fact, was the most dangerous of the entire transition, because the National Party government had lost all legitimacy to govern and the ANC was able to avoid all responsibility. Yet we got through it in better shape than we could reasonably have hoped.

Democracy has been established; now it must be consolidated. We have said it before and we will continue saying it: if the new ANC-dominated government insists on trying to achieve economic growth through substantial State intervention and the printing of money, it will severely undermine its own reconstruction & development programme. None of the ANC Ministers has yet been able to confront the realities of office; we must wait and see what happens when they do.

Meanwhile, it is worth looking at the big picture and identifying a few basic strategies to ensure that the chance the country has given itself will not be squandered.

First, as the presence of hordes of world leaders at the Union Buildings indicated on May 10, we are back in the world. That enthusiastic acceptance must be used as the foundation for sensible foreign and investment policies. Incoming Foreign Minister Alfred Nzo's reported remark that Africa would be our foreign policy focus is precisely what we do not want to hear. Our foreign policy must reflect our interests, which centre on trade and investment.

Second, the lessons of the National Peacekeeping Force and Independent Electoral Commission must be heeded. The NPKF was a costly military embarrassment; the IEC's administrative ineptitude made it a laughing stock. In both cases too many unqualified people were appointed to responsible positions, entirely for reasons of political correctness. In both cases, the men and women of the previously scorned security forces came to the rescue, whether by restoring order on the East Rand or flying ballot papers around KwaZulu/ Natal.

Both police commissioner General Johan van der Merwe and SANDF chief General Georg Meiring have pledged and demonstrated their loyalty: it must not be abused through the enforcement of demoralising affirmative action policies. This is necessary for the protection of democracy as much as for the self-respect of the men and women in uniform.

Third, President Mandela must do whatever it takes not to alienate irrevocably the business community — nor Chief Buthelezi. He depends on one for growth, the other for political stability.

Successful prosecution of these three strategies is not only desirable, it is feasible, given the President's political stature and commonsense. But he will have to be firm with the more romantic elements in his Cabinet and caucus. ■

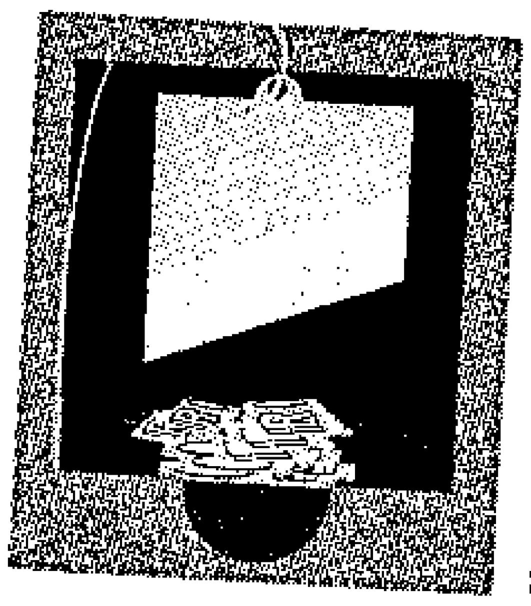
NATIONAL DEBT

FM 20/5/94

# Edge of the black hole

(749)

## Government spending is unlikely to drop, so growth is vital



**The first signs** of a national debt problem came in the mid-Eighties, when government debt started building up at an alarming rate. This was the beginning of a spiral of borrowing and repaying ever-increasing amounts, which could lead ultimately to what is known as the debt trap.

A debt trap is caused when government borrows from banks and on the money and capital markets to pay for current expenditure. It pushes the costs of borrowing — interest payments — to disproportionate levels of government expenditure and national income. Consequently, less money is available to finance other expenses — and therefore even more has to be borrowed.

Ideally, borrowings should not be used to finance any current spending, only capital items, but a major weakness of State finances in recent years has been a progressive decline in the proportion of spending representing investment. An ever-larger proportion has gone on unproductive bureaucrats' salaries. Borrowing money to pay salaries is bad enough, but borrowing to pay interest charges on earlier loans, as any private individual or company knows, is a recipe for disaster — and bankruptcy.

Once in the debt trap, it is difficult to escape — only a drastic restructuring of the economy and government's role in it might reduce debt, leading to a gradual recovery. Mere tinkering with monetary and fiscal measures cannot reverse the trend.

At the end of 1987, total government domestic debt stood at R53,2bn. Six years later, it had risen 223% to R171,6bn. The June 22 Budget is expected to reveal that it now stands around R200bn — some say pushed up by the Nat government tidying up the books before it left office. However, it is probably just a continuation of that government's inability to curb spending over the past decade. A Finance Department spokesman says lengthy recession, causing a fall in government income together with low growth in GDP, could also be blamed.

Whatever the reason, we are now in a debt crisis, as reflected in some telling ratios. In fiscal 1993/1994, interest payments on debt became the second largest item in the Budget, at R22,2bn — 17% of total expenditure and 26% up on the previous year. This is way above the 7,1% average for the 24-member OECD, which includes most western European countries, the US, Australia, Japan, New Zealand and Canada.

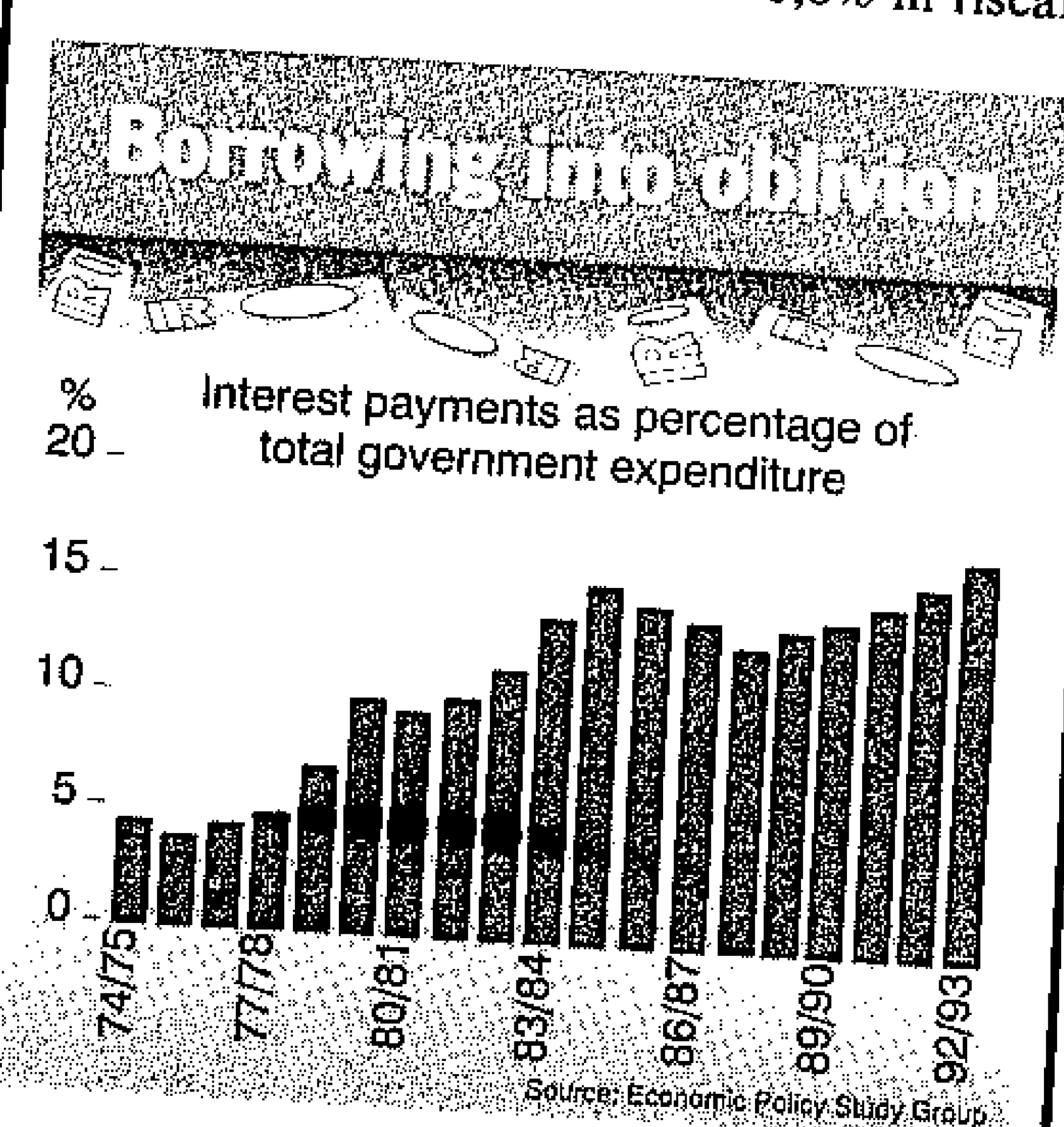
In 1994/1995 the cost of servicing State debt will be the largest Budget item, according to the Finance Department. To illustrate how far downhill we have come, in fiscal 1975/1976 interest payments were only 3,9% of total government expenditure. The result of these rising interest payments will be an increased tax burden and more borrowing on the domestic capital market — which will leave less resources available for productive private-sector investment.

The ratio of debt to GDP has also risen rapidly. This is partly due to recession, as a higher GDP growth rate can sustain higher government debt. GDP fell by 0,5% in 1990 and 1991, and by 2% in 1992. It grew marginally by 1% in 1993. But ballooning borrowing is the major culprit.

At the end of 1993, the government debt:GDP ratio hit 50,8%. Economist Edward Osborn believes it will be around 55% in this year's Budget, which will have to accommodate: forex losses of R7,5bn; R6,9bn for funding the State pension funds; and the inclusion of almost R15bn TBVC states' debt. Osborn sees the ratio moving to 60% — the internationally accepted ceiling, as set out by the Maastricht Treaty — and beyond. "The State is carrying a tremendous burden, but we're facing a year in which the situation can only worsen," says Osborn.

However, compared with OECD countries, SA has not done too badly by this yardstick. Most hover between 60%-70%, with Belgium having the highest debt:GDP ratio (144,8%) and Australia the lowest (41,3%). The problem is that SA has had to pay higher interest rates for its borrowings.

Another sign of a debt trap is when the government deficit — the amount government has to borrow to fund the shortfall between revenue and expenditure — is an excessive percentage of GDP. Finance projects a deficit for 1994/1995 of R26,1bn, 6,2% of GDP, compared with 6,8% in fiscal 1993/1994 and 8,2% in 1992/1993. The last figure, alarmingly high, was blamed partly on outside forces such as the drought.




Finance believes 6,2% is compatible with economic growth of around 3%, as it is projecting for 1994. The ANC has targeted a deficit of around 6% for the first Budget of the Government of National Unity.


Osborn

Standard Bank economist Nico Czypionka says a Budget deficit of 6% is unacceptable, though "a growth rate of around 5% could support this figure for a while, as long as inflation and interest rates are kept low and access to international capital markets avoids crowding out private-sector borrowing." He advocates a 6% deficit only in special circumstances and never as a norm. "With current growth prospects, a deficit of no more than 3% would be frugal."

In 1993, the only OECD countries that had a deficit over 3% were Sweden (8,5%), the UK (3,4%) and Australia (3,3%).

Osborn adds that a 6% deficit for SA has unfortunately been condoned by the World Bank, for a limited phasing-in period of the ANC's reconstruction & development programme. The fear is that this could easily become a new norm.

Yet another sign of a debt trap is when real yields (net of inflation) on government stock exceed the rate of growth in GDP. Reserve Bank economics head Ernie van der Merwe points out that these have widened considerably. A 1990 differential of 1,7 percentage points grew to 6,9 percentage points in 1992 before narrowing again in 1993 to 2,8 thanks to GDP growth. "Debt ratios may be difficult to sustain," he says.

The problem when real yields rise so much is that private investors find borrowing on local capital markets too expensive and are crowded out. Luckily, our debt problem does not include foreign debt, as we have been largely absent from foreign markets since 1985, when foreign banks' refusal to roll over loans caused a major balance of payments crisis — but this has since been reversed.

Foreign debt totalled R52,8bn (US$17,3bn) at end-1992. Ratios from the March *Reserve Bank Quarterly Bulletin* show SA is underborrowed on international markets. In 1992, foreign debt:GDP measured 15,1% — down from 36,3% in 1986; foreign debt:export earnings 61,1% (107%); and interest payments:export earnings at a

# BoP puts damper on rate cut prospects

(74A)

ARG 23/5/94

**BRUCE CAMERON**
**Business Editor**

THE country's financial institutions are divided about whether interest rates are about to turn or drop further.

In the latest series of economic surveys some economists still see room for a further drop in interest rates but others say short-term rates have now bottomed out and a rise can be expected.

The key is the state of the country's gold and foreign reserves.

In a statement yesterday Reserve Bank Governor Chris Stals said capital outflows had slowed in the 10 days following the elections but indicated that the situation was still far from good.

He said the slowdown should not be seen as a definitive sign of a turnaround.

Much depended on the outcome of today's Cabinet meeting and on a clear economic policy statement from the government.

Dr Stals confirmed that South Africa's net foreign exchange reserves had fallen by R3,2 billion in the first four months of the year following a R10,3 billion outflow last year.

He said the capital outflows had been a key factor behind the unusually high money market shortage sticking around the R5 billion mark, which was helping to drive up short-term interest rates.

Banks were being compelled to buy dollars from the Reserve Bank to fund the flow of capital out of the country. The banks were borrowing from the Reserve Bank at penalty rates because of the liquidity shortage.

Nedbank says in it's latest economic report that an early cut in Bank rate is unlikely because of the poor state of the reserves.

Nedbank notes that foreign exchange reserves came under renewed pressure in April, falling to R7,3 billion from R7,9 billion in March as strong capital outflows continued in the runup to the elections.

The bank concludes that despite the expected imminent fall in inflation to around seven percent, the weak balance of payments may delay — or even prevent — a further cut in interest rates.

Sanlam's chief economist Johan Louw feels a further one percent drop in the Bank rate rate with a corresponding drop in the prime overdraft rate and mortgage bond rates is still possible later this year.

But this would be dependent on the outflow of foreign capital being staunched and turned around.

He is optimistic that this could happen.

He predicted capital market interest rates should decline in the coming months in conjunction with an appreciable decline in the inflation rate in April; indications that government borrowing will be accommodated with ease; continued sluggish demand from the private sector; and considerable foreign interest in local bonds.

Last week Mike Brown, economist for stockbrokers Frankel, Pollak, Vinderine said the window to bring down interest rates was rapidly closing because of the pressure on foreign reserves. The pressure would increase as the economy improved and imports rose.

# Dispute in UN over SA's debt

(74A)

CT 24/6/94

**Own Correspondent**

NEW YORK. — As the UN General Assembly welcomed South Africa back yesterday, opinions differed on whether the new government should be let off the nearly $100 million (R360m) in dues its predecessor refused to pay after being ousted in 1974.

Foreign Minister Mr Alfred Nzo indicated the government wanted to be treated as a new member, with past debts written off. This would make SA liable only for a payment of around $10,5m (R37,8m) for this year.

European countries said the matter needed further negotiation. But Mr Nzo was strongly supported by the African group.

In his first address to the body, Mr Nzo said SA could not afford the old dues.

Diplomats expect SA's view to prevail but that a formula will be found to prevent it becoming a precedent.

FOREIGN DEBT

## Still falling

FM 24/6/94

**Foreign debt** as a ratio of GDP amounted to 14,2% at the end of 1993, well down on the 42,5% at the time of the debt standstill at the end of August 1985.

By the end of 1993, total outstanding debt was US$15,8bn — valued at exchange rates of the US dollar against other currencies at that date — 50% down. (74-A)

In rand terms the decline was 16,2% to R56,7bn.

Despite the large net outflow in 1993 foreign debt fell by an insignificant R600m in 1993 to $16,7bn at current exchange rates.

The *Reserve Bank Quarterly Bulletin* says the reduction was small partly because of reserve-related foreign borrowing of R7,4bn in 1993 and partly because of transactions which led to an increase in foreign assets.

A comparison of changes in foreign debt and capital flows, however, confirms that a large part of capital outflow in 1993 could not be identified. The balancing item which



FM 24/6/94

contains errors and unrecorded transactions was large. (74-A)

Debt subject to arrangements with foreign creditor banks was reduced from $5,5bn at the end of 1992 to $4,4bn at the end of 1993. At the start of the debt standstill, $13,6bn was affected by the arrangements. Debt outside the net rose from $11,8bn at the end of 1992 to $12,3bn at the end of 1993. ■

THE DEBT TRAP FM 1/7/94

# A way out

**In March,** which is the end of the fiscal year, total government debt stood at R192bn — about 50% of GDP. This is 24% higher than it was a year earlier, 52% up on March 1992 and 82% higher than in March 1991.

The accumulating debt is generating a huge and mounting service bill. In the four years, the interest cost has doubled — from R12,3bn in fiscal 1991 to a projected R24,6bn in fiscal 1995. As a ratio of total expenditure it rose from 14,8% in 1991 to an estimated 17,5%. And, as a percentage of GDP, it grew from 4,3% to 5,6%.

For several years, interest costs have been one of the biggest expenditure items on the Budget and it has made it difficult for government to keep total spending within limits. And much of the borrowing to finance the deficit has gone to service existing debt.

The danger is that the national debt reaches a point of no return, fiscal management collapses and the only way out for a desperate government is usually to amortise the debt — creating rampant inflationary pressures in the economy. (74A)

Naturally this is of great concern because it would plunge the country into chaos and destroy all chances of reconstruction and development. Fortunately, it seems the worst is not about to happen. One sign is that the increase in the interest bill of 10,9% is much less than the 26,4% recorded in the previous fiscal year. FM 1/7/94

Nor is debt out of line with trends in other countries. As a ratio of GDP in:

- Germany — it has risen from 43,2% in 1989 to 53,7% in 1994;
- US — 53,2% to 64,2%;
- Japan — 70,6% to 79,4%; and
- Total OECD countries from 57,6% to 70,2%. (74A)

So, in terms of crucial ratios, SA fares better than many of the developed countries.

Finance Minister Derek Keys points out also that 30% of national debt is owned by government pension funds — which is not always the case in other countries, where pensions may be funded on a pay-as-you-go basis.

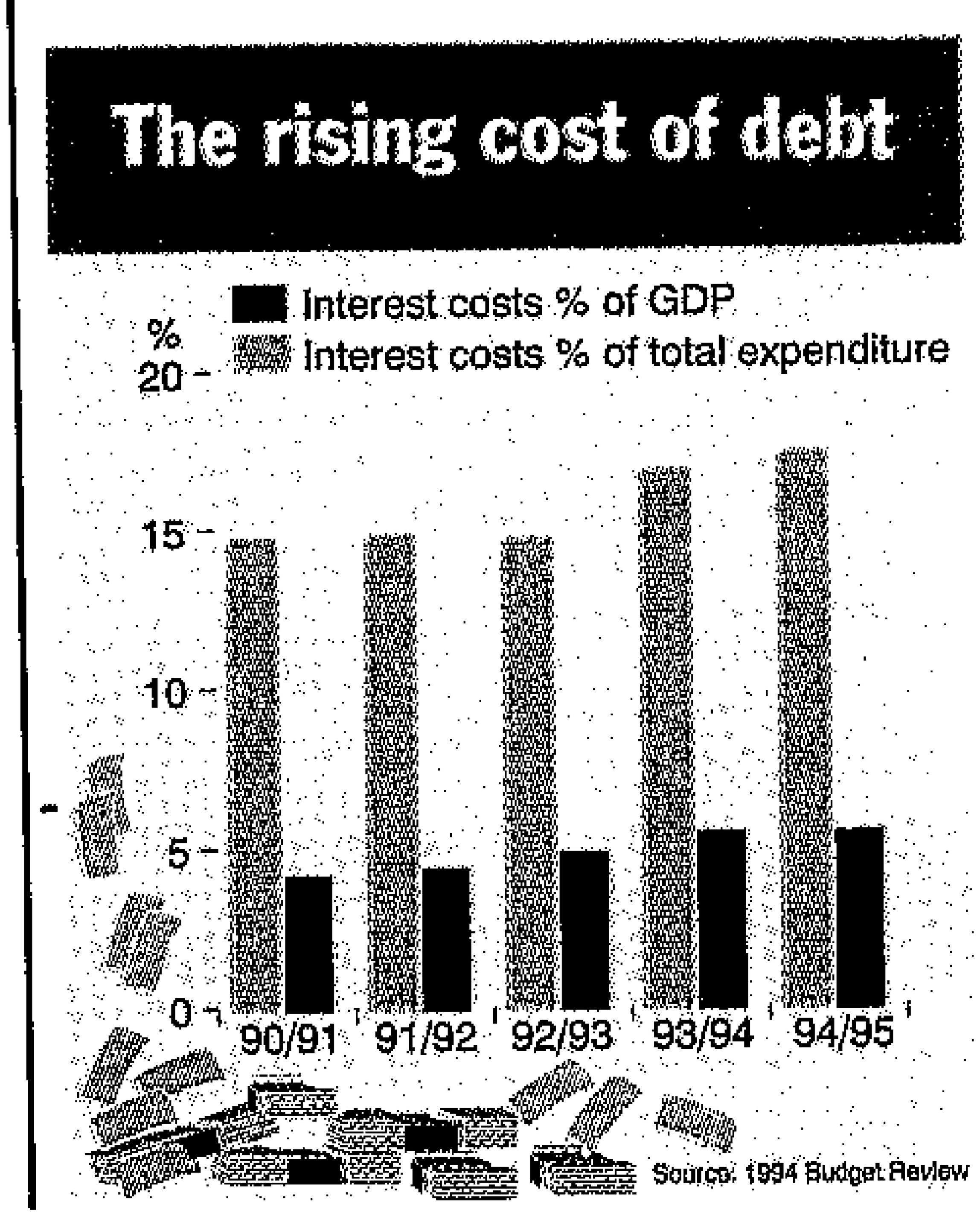
Certainly it is important to see the figures in perspective. But many cautionary notes remain.

Rising Budget deficits and government debt is regarded with concern in all countries. The OECD projects a continuing rise in the ratio of government debt to GDP, to bring the total OECD countries to 72,6% by the year 2000. This is diverting scarce funds into unproductive channels so the opportunity costs are high.

Moreover, SA's nominal interest rate (which is what is relevant in this context) is much higher than the rates paid abroad. About R187bn of the national debt has been financed in the local market. Figures on average interest rate for this portion, as at March 1994, are not yet published in the report of the Auditor-General. But, in 1993, the average interest rate on debt raised domestically was 14,58%. This is much higher than single digit rates charged abroad.

In recent weeks, when government was actively fund raising in a nervous capital market, it helped push rates on the RSA 150 from 12,5% in mid-May to 14,2% last week.

But Keys believes the present tax structure is sound enough to ensure a half percentage point reduction in the deficit each year — provided we keep to our target rate of increase in real expenditure. ■



# Where Keys will find the money

(74A) WM 1-7/7/94

**Simon Segal** outlines how the Budget deficit will affect the capital markets

Derek Keys ... Deficit before borrowing is around R37bn

FINANCE Minister Derek Keys' borrowing requirements for this fiscal year should not, in itself, exert pressure on interest rates.

Before borrowing, Keys pencils in a deficit of R29,3-billion (the shortfall of the R135,1-billion estimated spending and the R105,8-billion expected revenue). Add to this R6,9-billion in loans that fall due this year and his gross borrowing requirement comes to R36,5-billion.

Of this R1,8-billion is expected to be raised overseas, leaving the local capital market to finance R34,7-billion.

Two main sources will finance this, the Public Investment Commissioner (PIC), the custodian of the public sector's retirement funds, and the private sector's retirement/savings institutions.

The PIC has indicated it will take up R12,5-billion of this. Martin & Co economist Carmen Maynard forecasts the PIC should receive R15,2-billion this year, 14 percent higher than last year due to the topping up of pension packages ahead of the election and growth in state employment.

This leaves the private sector to finance around R22-billion, almost 65 percent of Maynard's projected R34-billion institutional cashflow from pension funds and life offices. This is seven percent up on 1993 when the R31,2-billion that flowed to the private sector institutions amounted to nearly nine percent of gross domestic product and 47 percent of gross domestic savings.

Maynard notes this is high by recent standards, when pension funds and life offices have tended to invest around a third of their cashflows in bonds. But she, along with many other economists, feels the government will be able to raise substantially more than R1,8-billion overseas. With foreign borrowings at a low 15 percent of gross domestic product South Africa has plenty of scope. But this money isn't cheap. Later this year South Africa will get its first international credit rating, probably BBB or A. Loans will then attract a lower premium. Banks are expected to take up almost half of the R6,9-billion in this year's rollovers. And by the end of the year the PIC will most probably have taken up more than R12,5-billion.

So the private sector could be called upon to take up much less than R22-billion of government borrowing.

In any event the Bank has already raised R10-billion, primarily in government's R175 (which matures in 2002) and R177 (2006) bonds. But it is becoming increasingly expensive for government to finance as long bond rates have risen from 11,5 percent in February to around 14,6 percent now, partly in response to trends in international bond markets and partly in response to concern about the deficit.

This year the government may well be able to comfortably finance its borrowings, but what of future years? Will Keys be able to rely on cashflows to the pension and life offices? Maynard warns that the six to seven percent annual real growth in their cashflow seen over the past two decades "is unlikely to be repeated except in unusual years".

She argues that with local institutions holding record exposure to equities (around 65 percent of their assets), it is unlikely that significant proportions of cashflow will be available for bonds.

The only solution is to reduce the deficit as a portion of gross domestic product. This is done either by growing gross domestic product or reducing spending. Government's Reconstruction and Development Programme is geared to the former.

# Major BoP crisis seen for SA

(74A). ARU 4/7/94

SOUTH Africa will face a severe balance of payments crisis in two years if all foreign exchange controls are not scrapped immediately, Board of Executors economist Rob Lee warns.

Exchange control, including the dual currency system, will protect the economy only in the short-term. But its continuation will cut short the current economic upswing in addition to a major BoP crisis by 1996-97.

He believes the abolishment of exchange controls will have an economic effect similar to the political watershed brought about by (now president) Nelson Mandela's release from prison in 1990.

"Exchange control sends a very clear message to foreign and domestic investors: this government does not believe in itself and its policies and expects its own citizens to export capital abroad on a massive scale at the first opportunity.

"Why should they have confidence in a government that does not have confidence in itself?," Mr Lee asks in a hard-hitting examination of exchange control in BoE's July Investment Outlook.

As the economy recovers, and particularly as investment increases, import volumes will soar and the current account will move into substantial deficit.

To sustain this will require an implausible level of foreign inflows, he says.

The Reserve Bank will not be able to defend the currency against rapid depreciation except through a hike in interest rates. The exchange rate will fall sharply or the economic upswing will be aborted, or probably a combination of both.

"Our ruling politicians are therefore likely to face the next election in the midst of another recession. Our brief experiment with liberal democracy could then be at stake," Mr Lee says.

The immediate scrapping of all foreign exchange controls will bring about short-term pain with increasing financial market volatility and a temporary acceleration in inflation, he admits.

However, the period of adjustment need not be unduly painful if exchange controls are abolished soon as most of the needed economic policies and structural adjustments are in place or under way. In addition, IMF funds could be arranged to support the adjustment.

"Some industries would find the adjustment process long and painful but others (mainly competitive export industries) would grow rapidly...

"The economy (also) has substantial excess capacity to limit the inflationary shock of a lower exchange rate."

Mr Lee expects the lifting of exchange controls will result in the price of assets and the currency adjsuting very rapidly without major flows taking place.

The Reserve Bank will then not need to waste foreign exchange and depress economic activity by defending a fundamentally overvalued currency.

"This is precisely what the Reserve Bank has been doing ... at the expense of the long term health of the economy," he argues.

"Abolition of exchange control would be the economic equivalent of the release of Nelson Mandela from prison, a watershed event which will ensure that South Africa takes its opportunity of being a 'winning' nation." — Sapa.

# Anglo goes offshore in quest for gold

ARU 4/7/94 (74A)

Business Staff

ANGLO American is looking for new gold deposits, but is going outside South Africa's borders for them.

It says in its annual report it is starting to look for Witwatersrand-type deposits in central Botswana where the first phase of drilling will end in 1996.

The directors say that reconnaissance investigations for gold and base minerals continue in Namibia, Zambia, Tanzania, Senegal, Burkina Faso and in other countries in west, central and east Africa and in Madagascar.

They say a feasibility study on the Sadiola Hill deposit in western Mali has been completed. A decision to develop a mine there will be taken by the end of this year after the grant of an exploitation permit and the negotiation of suitable financing.

Encouraging results have been obtained in the Bambadji concession in Senegal.

In South Africa itself the search for Witwatersrand-type deposits continues to decline with the completion of exploration in the Potchefstroom Gap and in the areas adjacent to Freegold.

The directors make no mention of Anglo starting new mines, but they emphasise there is a continuing need for cost control to preserve profit margins at existing producers.

Prospecting in South Africa is being focused on base and precious metals in the Transvaal and Northern Cape.

Exploration for copper near Maun in Botswana was suspended because of disappointing results.

Meanwhile, another "exploration" activity — the entry into the high-tech world of developing an electric battery for cars — continues to bring encouraging results.

A Mercedes Benz 190 with a Zebra battery has covered nearly 80 000 maintenance-free kilometres over the past three years.

The pilot production facility for the battery is now in varying stages of commissioning.

FOREIGN INVESTMENT

Fm 29|7|94

# Guarantees instead of policies

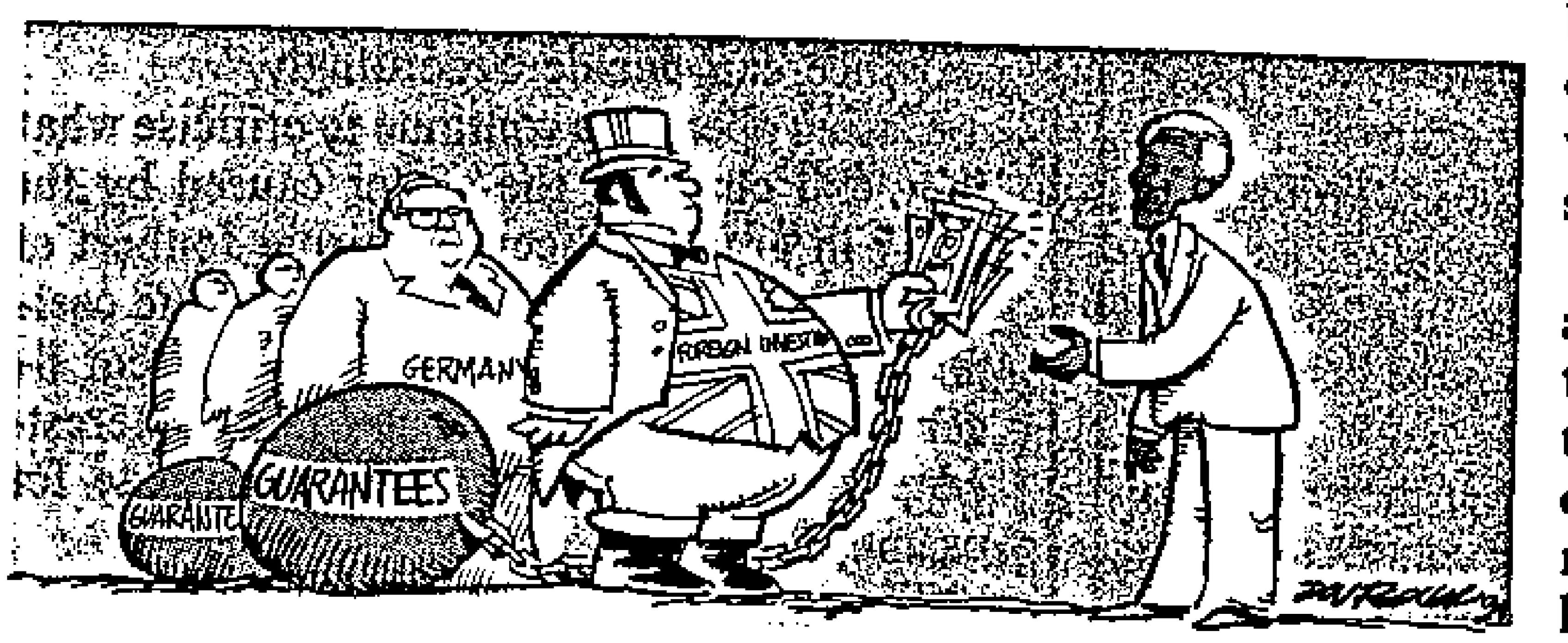
(74A)

**SA, now** a full-fledged democracy, wants to be seen by overseas investors as a safe, modern and progressive member of the league of nations. Instead, they see a socially unstable country that refuses to pursue economic policies that work. To bridge the gap, European countries are beginning to demand that SA must sign treaties that would force government to compensate their citizens for any investment lost due to political activity or nationalisation.

The UK will probably be the first to win such guarantees and Germany is also busy negotiating a similar treaty. Several other European countries, including some in eastern Europe, are queuing to seek guarantees from government.

Word of the pending SA-UK Investment Promotion & Protection Agreement came at this month's meeting between government and British Board of Trade president Michael Heseltine. Negotiators are still working out the details.

A British high commission spokesman says: "We want to ensure that our nationals enjoy the same rights and privileges accorded to local investors. Compensation for losses — particularly through government expropriation — is vital as is a guarantee that such compensation and all investments can be repatriated or transferred."




He points out that British investment in SA is already substantial — about 65 new investments worth more than R2bn have been made in the past four years. "Such an agreement would provide added comfort to investors, particularly new investors not familiar with SA."

These agreements are rare between First-World countries. Merely signing them could indicate that one side is politically risky for investors. The UK has 67 of these agreements, mostly with Latin American, south-east Asian and Commonwealth countries, except for Canada. The agreements have been the norm for countries where there's a threat of nationalisation, observers say.

The British spokesman plays down their significance. "We don't have such agreements with countries like Canada and the US simply because they are members of the OECD and subscribe to an investment code that already guarantees the safety of investments." A German embassy spokesman, however, admits that these agreements are usually reserved for industrialised countries dealing with developing states.

The problem lies in determining the losses that result from political activity. Such an exercise can be pretty open-ended and encompass everything from war, riots and other acts of violence to even the fallout from industrial action. Given that SA is likely to have a lot more political and industrial violence for some time, such an agreement can only be a liability for SA, at least in the short term, observers say.

The benefits of reciprocity — SA would enjoy the same rights in partner countries — are also unlikely to outweigh the pitfalls. Legal experts point out that the process involved in carrying out these agreements is cumbersome and costly. Disputes are usually referred to international arbitration. Under SA precedent, a dispute would probably first be referred to local courts for resolution within, for example, six months to a year.

International agreements of this nature usually also state that the repatriation of funds must be immediate and at market value. Given SA's two exchange rates (the financial and commercial rands), deciding which rate to use for repatriating funds could be a sticking point as negotiators try to complete these treaties.

The British spokesman says: "It's really up to the South Africans to decide what level of protection they are prepared to guarantee." (Another source of insurance against political losses is available in SA through World Bank subsidiary Multilateral Investment Guarantee Association but claims must exceed R1m. Cover is costly and not available to everyone.)

Under SA's interim constitution, all treaties must be approved by parliament, which could be a lengthy and costly process, particularly if government is forced into signing similar agreements with other investing countries.

Instead, investor fears could be allayed far more easily and productively with, first, a comprehensive and market-orientated statement on economic and investment policy (*Business* July 15) and, second, real economic reforms that included ending exchange control, cutting taxes, deregulating large sections of the economy and finally, privatising most State assets.

The British spokesman says: "At the end of the day, the tax rate, the investment climate and government's actual policy are what count. Investors tend to look at the facts and not just statements. If these agreements are a substitute for investment policies, they're not a good substitute."

*Mirryena Deeb*

FOOD PRICES

Fm 29|7|94

## How high will they go?

**The unpredictable** climate — from drought to frost — has set off a steep spiral in the food inflation rate. Throw in a rodent plague and heavy rains in some areas and watch as red meat and fresh produce prices soar. Food comprises almost 19% of the consumer price inflation rate and, with some wholesale prices starting to hit record levels, the inflation rate should soon show the effects of the surge.

Red meat prices are rising (beef is up 20% in the past year, compared with overall inflation of just more than 7%) as farmers hold back stock for fattening and breeding after last summer's excellent rains. In the case of fresh produce (mainly winter vegetables grown in the Lowveld and northern Transvaal), the combination of a severe, ongoing drought and the heaviest frost in three decades has virtually wiped out some crops and caused some prices to quadruple.

"There is an absolutely critical shortage of virtually all types of green vegetables, with potatoes, beetroot and carrots soon to follow suit," says Vito Rugani, chairman of the SA Agricultural Union's vegetable committee. "Apart from the severe frost damage, the southern Lowveld — the Transvaal's winter pantry — is bone dry. The Crocodile and Komati rivers have almost stopped flowing and I doubt whether the area is producing at 20% of normal levels. June's freezing weather hit right up to the Limpopo River, while subtropical Komatipoort had a few nights of subzero temperature, killing off banana trees."

With the Lowveld hard hit by drought, northern Transvaal vegetable farmers took up the slack. Their efforts, however, have been destroyed by a combination of black frost and a rodent plague. Says Rugani: "With below-ground temperatures subnormal, crop cycles for tuberous plants like potatoes, beetroot and carrots have also been set back. I do not expect a recovery before November."

Over the past three months market prices for some vegetable crops have shot through

# Foreign loans to increase — Keys

CT 12/8/94 (74A)

Political Staff

FINANCE MINISTER Mr Derek Keys yesterday indicated that his department would replace some of the foreign loans it had recently repaid.

Speaking in the Budget debate, Mr Keys said he could not immediately say what level of foreign funding was considered appropriate.

He said he was proceeding on the basis that "putting our toe in the water now can't be wrong".

"We are entitled to replace some of the many foreign loans we have had to repay," he said.

A critical step in deciding on the appropriate level of debt would be the "ratings obtaining" exercise that the Finance Department had embarked on, he said.

"At the root of the decision as to what rating to award us as a borrower, lies the question as to what level of borrowing is a safe proposition from the lender's point of view," he said.

Once this was decided, the longer term strategy could be defined, he said.

Mr Keys said his department was working on South Africa's re-entry into capital markets.

In reply to a question on the zero-rating of books, Mr Keys said he was obliged to oppose any movement towards zero-rating.

If some products were zero-rated "then we start down a slippery path that has no end", he said.

"My courage failed me in this regard as a consequence of the unhappy experience of the drain of SA's foreign reserves month after month."

The situation had recently improved markedly, Mr Keys said, adding that he hoped his successor would take advantage of this fact.

# SA faces IMF loan, says Stals

S/Times (Buss)

21/8/94

By CIARAN RYAN

SOUTH Africa may have to approach the IMF for a standby facility to prop up the current account of the balance of payments in 1995 or 1996.

Reserve Bank Governor Chris Stals says South Africa is headed for a balance of payments crunch next year because of rising imports fuelled by the economic recovery.

"The current account, which refects trade flows, will most probably deteriorate by 1995," says Mr Stals.

This will be the second time South Africa will have asked the IMF for funding. Last year the IMF lent South Africa $850-million to shore up dwindling reserves on condition the fiscal deficit dropped to around 6% of gross domestic product.

The loan — granted to alleviate a temporary balance of payments problem caused by the drought — was approved with relatively lenient conditions.

A standby loan facility to redress a balance of payments crisis is likely to come with more stringent IMF conditions attached.

These typically require the liberalisation of exchange controls, tight monetary and fiscal discipline and measures to free up internal markets.

Scotching rumours that the financial rand will be abolished this week, Mr Stals told Business Times an implied condition of the $850-million loan was that the financial rand should remain in place to prevent capital outflows.

"We have to consider all the implications of abolishing the financial rand. It could have a sharp impact on pricing, particularly of essential imports such as fuel, food and capital imports."

Businessmen and economists have called for the financial rand, which trades at a 21% discount to the commercial rand, to be abolished in order to boost export competitiveness.

Foreigners say it is a disincentive to investment because they have to gamble on the future rate of the currency as well as the likely rate of return from investment in South Africa.

Mr Stals replies that the preconditions for abolition are not in place: "There are signs that the capital outflow is reversing, but not nearly fast enough.

"The discount between the financial rand and the commercial rand is still too high, as is the pool of uninvested financial rands waiting to leave the country."

(74A)

Bond market rates would have to rise from 15% to 18% and the Bank rate from 12% to 14% to compensate foreigners for the loss of the 20% financial rand discount.

Gold and foreign exchange reserves are down to a perilously low R7,5-billion, sufficient to cover one month's imports.

Mr Stals says there are encouraging signs of a reversal in capital outflows, which earlier this year were running at the rate of R1-billion a month as companies repaid off-shore borrowings.

"If we approached them for capital account assistance, they may subject us to a comprehensive structural adjustment programme, which we would rather avoid."

Rand Merchant Bank economist Rudolf Gouws says: "The Government is moving in the direction required by the IMF so the issue of loss of sovereignty does not arise."

# SA urged to borrow heavily

(749) CT 25/8/94

By AUDREY D'ANGELO
Business Editor

## Critical need for funds — Kantor

SA SHOULD borrow at least \$1bn or \$1,5bn as soon as possible regardless of the rating it receives next month, University of Cape Town economics professor Brian Kantor said at an Institute of Directors luncheon at Western Province Cricket Club yesterday.

But it should keep these borrowings fairly short-term in the hope of a better rating.

Kantor pointed out that SA's most urgent need was for investment in labour-intensive industry to create more jobs.

The two-tier exchange rate discouraged foreign investment in SA. But the financial rand would obviously not go until SA had enough dollars to close the discount between it and the commercial rand.

Reserve Bank governor Chris Stals would not abolish it if this meant downward pressure on the rand "because that would unleash the dogs of inflation, which is the last thing we need."

That would result in continued pressure for higher wages and strikes every month rather than every year.

Stals clearly intended to hold inflation down to its present level and Kantor believed that the rand would not be lower than R3,6 or R3,7 to the dollar by the end of this year.

Kantor recently returned to SA after lecturing for three months at the University of Columbia business school.

He said he had been there during the election and the situation had changed overnight as far as doing business with SA was concerned. This had now become the most politically correct country to do business with, and SA companies should take full advantage of the opportunity opening up.

The US economy accounted for some 40% of the total world economy. And US savings must account for between 50% and 60% of world savings.

Discussing SA markets, he said share prices had been boosted by optimism "but not our bond market, which has reacted very negatively since January.

"For every 1% on the longterm bond rate we are talking about an extra R350m on government debt.

"Every 1% on the bond rate is taking R350m from the RDP and that is not small change."

BALANCE OF PAYMENTS

Fm 26/8/94

# Boost for net reserves

(74A)

**For the** first time since credit sanctions were imposed in 1985, there has been a relative change in the strength of the capital and current accounts. As long as the country was committed to debt repayments, with little hope of new loans, SA was obliged to run a healthy surplus on the current account.

This requirement aborts any expansion because it is always accompanied by a rising import bill.

Recently the current account has been weakening "which makes the need for an improvement in the capital account all the more important," says Reserve Bank Governor Chris Stals. There are tentative signs that, though still fragile, it is strengthening. In the first half of 1994, despite a fall in the current account surplus, to a seasonally adjusted and annualised R2,5bn (from R5,9bn in 1993), the overall balance of payments position improved.

Figures on net foreign reserves are not readily available. Totals are never published but, each quarter changes in net reserves are disclosed. The Bank's Annual Report, published this week, gives net figures which present a more favourable picture than do changes in gross reserves published monthly. "A reversal of the large outflows of short-term capital after the election in April enabled the bank to reduce its foreign liabilities to R5,7bn by the end of July," from R8,5bn in May.

The success of the elections (politically if not administratively) and the installation of the Government of National Unity in May stemmed huge net outflows recorded on the capital account between February and April.

"In January," says the report, "a large increase of R1,6bn was registered in the net gold and other foreign reserves, owing to the return flow of short-term funds that had been taken off the books of certain foreign lenders at their financial year ends.

"This was followed by a decrease of R4,5bn in the ensuing three months because of rising uncertainty in the pre-election period and a contraction in export proceeds. When it became apparent the new government had assumed power without large disruptions, the decrease in net gold and other foreign reserves slowed to only R300m in May and June. In July, they increased by no less than R1,5bn."

This allowed the Bank to intervene in the market to support the rand.

The Bank puts the figures in historical perspective. Annual average net outflows between 1985 and 1992 amounted to R4,1bn; in 1993 to a massive R16,3bn and, in the first half of 1994, to R3,7bn.

The liquidity squeeze last year came when the current account surplus was neutralised by maturing fixed loan commitments and uncertainty about political developments. To avoid having to raise interest rates the Bank borrowed R7,4bn to support the rand.

The Bank reports that debt, affected by standstill arrangements, fell from US$5,5bn at the end of 1992 to R4,4bn at the end of 1993. Non-affected debt rose from $11,8bn to $12,3bn — largely due to the $850m loan from the IMF and drawings on short-term credit facilities by the Bank.

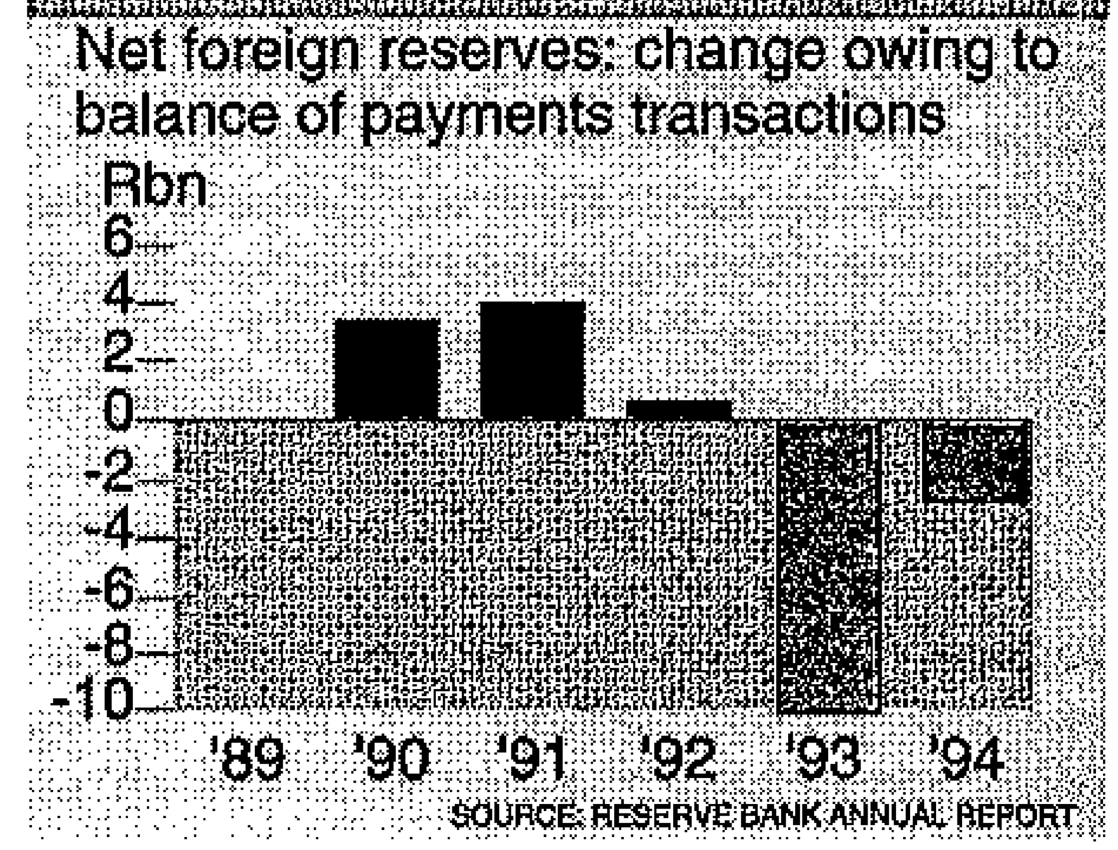
For the first time, the Bank published figures on rand-denominated debt (subject to financial and blocked rand exchange control regulations and converted into dollars at the commercial rand rates of exchange). "It was not included in total foreign debt in the past because it did not affect the standstill arrangements with foreign creditors," says the report, "and did not represent a direct claim on the foreign reserves of the country because of the financial rand restrictions."

Rand-denominated debt "decreased moderately from $9,9bn at the end of 1992 to $9,1bn at the end of 1993 — though, in rand terms it increased from R30,3bn to R30,9bn. This increase was lower than in previous years as nonresidents used financial rand deposits with banks to become net buyers of share capital which is not included in foreign debt.

Total foreign debt was $25,8bn (R87,6bn) at the end of 1993, compared with $27,2bn (R83,1bn) at the end of 1992. The ratio of interest payments to total export earnings was only about 7% in 1993. This compares with more than 17% in most Western hemisphere countries.

A sovereign rating will take these favourable ratios into account. ■

## OUTFLOWS SLOW




## UNCERTAIN TIMES

**Rates in** the bond market rose last week and early this week. Government's benchmark R150 bond closed on Monday at a two-year high of 15,6%.

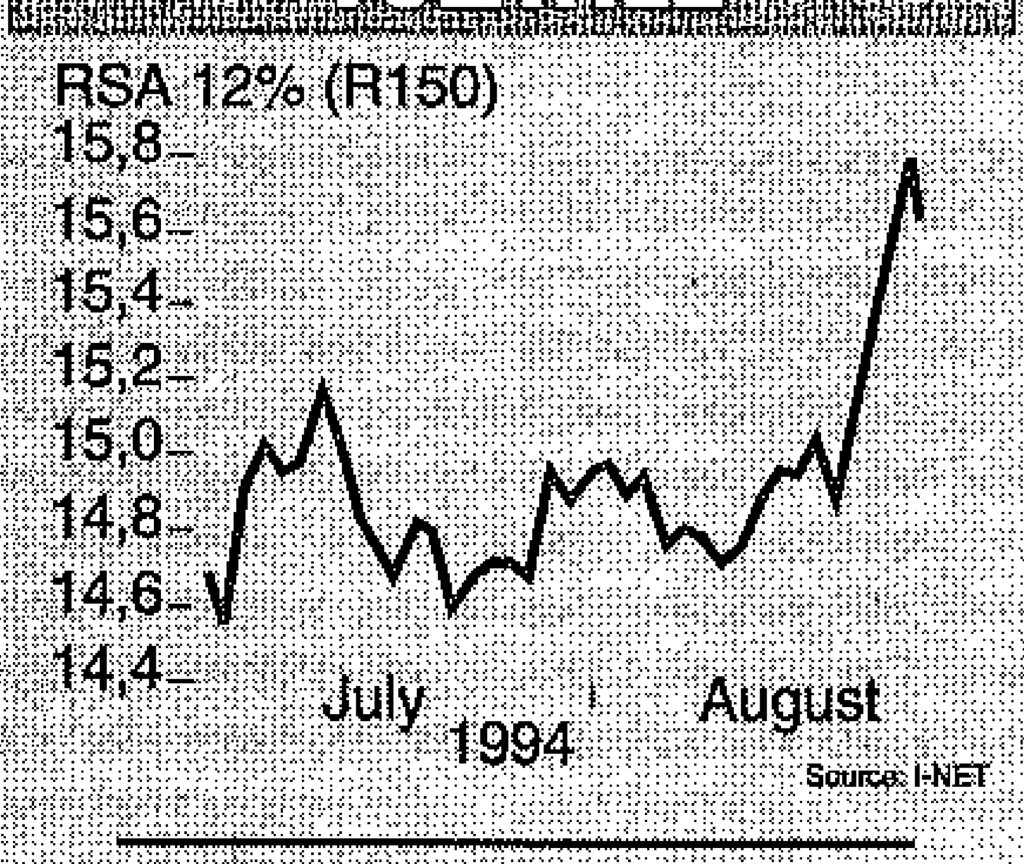
This was due to speculation that exchange control would go and, on Tuesday, in the hours before Reserve Bank Governor Christ Stals's address, rates almost touched 15,8%.

Once the text was known (see *Leaders*) the rates fell back to overnight levels before rising again to close on Tuesday at 15,7%.

The market is sceptical and apparently still expects an early official announcement on exchange controls. It's unlikely that rates will come down much, even though the market looks oversold at current levels.

"On a purely cyclical basis, a yield of around 16% looks a good buy," says one analyst. He adds: "But it would quickly be rendered a bad buy if exchange controls are removed and rates shoot up to 18% or 19%."

## LONG BONDS STILL VOLATILE




COPYRIGHT

## A&G's software battle

**Short-term** insurer Auto & General has won a copyright case involving its computer systems, allegedly pirated by IFM Holdings and sold through Tele Insurance Brokers. And BCS Computers is in a dispute over software copyright with Clive Allen & Associates.

A&G won its case in the Commercial Court after a raid on the offices of Tele Insurance. The court held that IFM, Tele Insurance and MD Mervyn McArthur must

# Domestic debt to be restructured

BDay

GRETA STEYN

GOVERNMENT was looking at ways to restructure its domestic debt to smooth out the maturity structure, Finance director-general Estian Calitz said yesterday.

He confirmed that consolidating different government stocks into one paper could be a way to achieve a more comfortable maturity structure, but such a move would have costs attached that should be weighed against the benefits. 9/9/94

The Finance Department looked constantly at the "peaks and troughs" of government's debt redemption schedule with a view to achieving a smoother line. If a consolidation did not take place, government's gross borrowing requirement in those years would be large. But the net requirement was more important.

Reserve Bank capital markets GM Andre Kock said the Bank, which markets government's stock, had already undertaken measures to avoid bunching of debt redemption. The easiest option was offering investors switches into stock with a later maturity date. Such deals had already been done with individual creditors.

Kock said most of the Bank's government funding activity was through the R160, which matured in 1998, a year when there were no other major redemptions.

The state's short-term investment arm, the Corporation for Public Deposits, bought up stock in the market when maturity neared, as had been done with the debt falling due on September 15.

The Bank, in its latest report, said the maturity structure of government's debt was a problem that had to be addressed soon. Scheduled redemptions were already very large in the years 1996/97, 1997/98 and 2000/01. That could have "serious implications" for the capital market, especially if there were also large deficits on the exchequer account in those years. The problem would be aggravated if the private sector's demand for finance was robust. (44A)

# BoP improvement forecast

ALIDE DASNOIS
Business Staff

THE capital account of the balance of payments should improve in the rest of the year, leaving stronger gold and foreign exchange reserves, says Sanlam economist Johan Louw.

Writing in the latest *Economic Survey*, he says net capital outflows have already dropped from R9,8 billion in the second half of 1993 to R3,7 billion in the first half of this year.

With the level of the reserves currently standing at five weeks' imports and diminishing surpluses on the current account, further progress on the capital account is "of the utmost importance", Mr Louw says. (74A)

The finalisation of SA's credit rating should make re-entry to international capital markets easier.

But Mr Louw warns that the economic recovery is at a delicate stage and that much depends on the restructuring of the economy. Provision should be made for:

- The maintenance of fiscal and monetary discipline; ARG 22/9/94
- A reduction in the tax burden;
- An increase in labour and capital productivity; and,
- Controlled wage increases.

Long-term interest rates are likely to stay high.

Short-term interest rates will probably rise, pushed upwards by accelerated private sector demand for credit, money supply growth, which outstrips the Reserve Bank's targets, the low level of the reserves and rising interest rates overseas.

Sanlam is forecasting real economic growth of between two percent and 2,5 percent for the year. But, Mr Louw warns, if growth in the third quarter is sluggish, the final quarter will have to produce growth rates of seven to eight percent or higher if this forecast is to be accurate.

Mr Louw says he does not expect sharp rises in the dollar gold price "in the foreseeable future".

The economic upswing in the industrialised countries has been stronger than expected and 1995 should be another good growth year for the world economy. Interest rates should rise in most countries.

# SA credit ratings send mixed signals

CT 4/10/94 (74A)

**Business Editor**

SOUTH AFRICA's eagerly-awaited international credit ratings — which determine the interest rates charged on loans from foreign banks and influence foreign investors — have sent mixed signals to the international financial community.

South Africa has been awarded a favourable BAA3 investment-grade sovereign rating by Moody's Investment Services Inc.

But it has had a disappointing BB rating, although with a positive outlook, by another leading United States agency, Standard and Poor Corporation. This means that interest rates charged by foreign banks will be higher than if the rating had been the hoped-for BBB.

The effect of this is likely to limit the extent of government borrowing and encourage a continued tight monetary and tax policy, with long-term South African interest remaining high to protect the balance of payments.

The ratings were welcomed by Finance Minister Mr Chris Liebenberg, who said last night they were "very positive."

Pointing out that credit risk ratings opened the door for the country's return to a wider range of international capital markets and investments, he said: "South Africa now has an internationally recognised sovereign benchmark against which its many public and private sector institutions can be measured.

**GILTS, EQUITY MARKETS 'SET FOR BUYING SPREE'**

See PAGE 9

"The investment grade status conferred on South Africa by Moody's demonstrates confidence in the coherence of the economic policies and political stability brought to the country by the new government.

"We must, however, recognise that there are still issues that need to be addressed. The Moody's rating as well as Standard and Poor's 'positive outlook' indicate that they recognise South Africa is already addressing these isues and that they believe we will be successful in this task."

Moody's said its favourable rating was based on South Africa's low external debt and the commitment by the new government to redirect spending to a comprehensive development programme while reducing the public sector deficit.

The statement said the rating also took into account the highly challenging environment facing the new government, particularly the costly, complex, and long-term economic development agenda and the coalition nature of the transitional administration.

Standard and Poor said South Africa's creditworthiness was "constrained by the formidable challenge of reforming the protective economy and potential slippages in reducing high budget deficits".

# Measure of credit rating will be felt when SA makes first borrowing

74A ARG 8/10/94

**BRUCE CAMERON**
**Business Editor**

THE full effect of South Africa's split category sovereign rating this week will only be known when the country makes its first foreign borrowing later this year.

Meanwhile bankers from around the world are queueing up outside the doors of the Department of Finance in Pretoria offering advice on what will be a lucrative financial deal.

Government officials are working at full tilt to tap the international capital markets by the end of the year, listening to advice from bankers, analysts and institutional investors.

The government will have to decide how much, when, in what currency and in which markets the loan or loans will be raised and how much it is prepared to pay.

There are three main market areas: the Eurobond market operating mainly out of London, the Yankee market operating mainly out of New York and the Asian market, with the Samurai market in Tokyo being the most improtant.

The Department of Finance Director General said recently that most advice was for a global dollar issue through which all the markets could be tapped.

Market indications are that a yen issue is also being considered or could follow a global issue rapidly.

The long-awaited ratings place South Africa just over two thirds down the list of the 50 countries that carry international credit risk ratings.

On the Moody's list, where South Africa was given an "investment" grade rating of Baa3, the country is in joint 34th position alongside Greece and Indonesia.

On the Standard & Poor's list, where South Africa was given a weaker "speculative" grade BBB rating, the country is in joint 35th position alongside China.

Market analysts in London said in interviews this week that the final judge of how much South Africa would have to pay "will be the markets themselves".

"The ratings are only a guide."

The main necessity for the government to obtain the ratings was to give it legal access to the American and Asian capital markets.

The fact that there was a split rating would prevent some of the American pension funds from buying South African stock, but "there are billions of dollars available in the capital markets. The pool of money is enormous."

The banks chosen to manage and underwrite the South Africa issue will test the reception of clients, while South African officials are expected to shortly go on on a world tour, speaking to potential investors about the advantages of investing.

However other factors such as the activity in the capital markets generally and the view of emerging markets would also play a part.

Emerging markets were no longer as popular as they were last year, but South Africa was being seen in a higher category than the normal emerging market.

## Sovereign Government Ratings

**MOODY'S**

| Country | LT |
|---|---|
| Austria | Aaa |
| France | Aaa |
| Germany | Aaa |
| Japan | Aaa |
| Luxembourg | Aaa |
| Netherlands | Aaa |
| Switzerland | Aaa |
| United Kingdom | Aaa |
| United States | Aaa |
| Belgium | Aa1 |
| Bermuda | Aa1 |
| Canada | Aa1 |
| Denmark | Aa1 |
| Norway | Aa1 |
| Australia | Aa2 |
| Finland | Aa2 |
| Ireland | Aa2 |
| New Zealand | Aa2 |
| Singapore | Aa2 |
| Spain | Aa2 |
| Sweden | Aa2 |
| Taiwan | Aa3 |
| Italy | A1 |
| Portugal | A1 |
| South Korea | A1 |
| Iceland | A2 |
| Malaysia | A2 |
| Malta | A2 |
| Thailand | A2 |
| China | A3 |
| Hong Kong | A3 |
| Chile | Baa2 |
| Czech Republic | Baa2 |
| Greece | Baa3 |
| Indonesia | Baa3 |
| **South Africa** | Baa3 |
| Colombia | Ba1 |
| Hungary | Ba1 |
| Uruguay | Ba1 |
| India | Ba2 |
| Mexico | Ba2 |
| Trinidad/Tobago | Ba2 |
| Venezuela | Ba2 |
| Philippines | Ba3 |
| Turkey | Ba3 |
| Argentina | B1 |
| Brazil | B2 |

No grading: Cyprus, Israel and Slovakia.

**STANDARD & POOR'S**

| Country | LT |
|---|---|
| Austria | AAA |
| France | AAA |
| Germany | AAA |
| Japan | AAA |
| Luxembourg | AAA |
| Netherlands | AAA |
| Norway | AAA |
| Switzerland | AAA |
| United Kingdom | AAA |
| United States | AAA |
| Belgium | AA+ |
| Canada | AA+ |
| Denmark | AA+ |
| Singapore | AA+ |
| Sweden | AA+ |
| Taiwan | AA+ |
| Australia | AA |
| Italy | AA |
| Spain | AA |
| Cyprus | AA- |
| Finland | AA- |
| Ireland | AA- |
| Netherlands | AA- |
| Portugal | AA- |
| South Korea | A+ |
| Hong Kong | A |
| Iceland | A |
| Malaysia | A |
| Malta | A |
| Thailand | A |
| Chile | BBB+ |
| Czech Republic | BBB+ |
| Israel | BBB+ |
| China | BBB |
| **South Africa** | **BBB** |
| Colombia | BBB- |
| Greece | BBB- |
| Indonesia | BBB- |
| Hungary | BB+ |
| India | BB+ |
| Mexico | BB+ |
| Uruguay | BB+ |
| Argentina | BB- |
| Philippines | BB- |
| Slovakia | BB- |
| Turkey | B+ |
| Venezuela | B+ |

No grading: Bermuda, Brazil, Trinidad and Tobago.

THE WEEKLY MAIL & GUARDIAN
October 14 to 20 1994

# SA's 'overdraft' in favourable trend

WM(BM) 14-20/10/94

(74A)

South Africa has managed to reduce its 'overdraft' from R8,5-billion to R5-billion. **Simon Segal** reports

THE third consecutive monthly rise in South Africa's gold and foreign-exchange reserves to R8,1-billion at the end of September confirms the country's declining reserve trend has reversed — even though the rise was less than expected.

Net capital outflows in 1993 totalled R16,3-billion; in the period 1985 to 1992, net capital outflows averaged R4,1-billion a year. Up to the inauguration of President Nelson Mandela on May 10, nearly R3,5-billion left the country; since May 10, a net R4-billion has flowed into South Africa.

This has enabled the Reserve Bank to reduce its foreign liabilities — an effective overdraft — from R8,5-billion on May 10 to just under R5-billion now (slightly more than R500-million was repaid in August and R200-million in September).

This is still, however, well above the Bank's R3,5-billion foreign liabilities in January and foreign reserves are still not worth much more than the value of one month's imports (R7-billion in August).

The main reason for this more favourable trend is that short-term trade finance has been switched back to South Africa from offshore.

But there is still little evidence of the longer-term funds so vital to help finance the longer-term reconstruction and development requirements. With credit ratings from international rating agencies Standard & Poor and Moody's of BB and BAA3 respectively, South Africa will shortly approach the international financial markets. It is only waiting for a rating from Japan's Nippon Investor Services.

The most probable scenario is that a total of around $500-million will be raised from the United States, Europe and Japan.

The ratio of public debt to gross domestic product — the main measure of national economic activity — was 48 percent in March. It is now probably very near the danger level of 60 percent, and economists are wary about the merits of South Africa increasing its debt by borrowing offshore.

South Africa is underborrowed in terms of its $16-billion foreign debt, some 14 percent of the GDP. But it must be remembered that there is also a financial rand pool of $15-billion owed to non-residents.

With economic growth, economists anticipate a surge in imports during 1995 and 1996. From historical experience, imports can expand by 30 to 40 percent. This means running a current account deficit.

Under such circumstances the International Monetary Fund provides assistance, bridging finance of sorts. But its conditions are stiff and serious. A budget deficit that amounts to six to seven percent of GDP, as at present, won't be countenanced by the IMF.

Besides loans, aid and donations are useful for social upliftment but cannot support long-term economic growth, and portfolio investment in South African equities and bonds is still volatile, unpredictable and vulnerable to political developments.

Reserve Bank estimates indicate that to achieve a higher annual growth rate of, say, five percent requires a net capital inflow of around $1-billion. This will only happen when the government's policies are accepted as credible and responsible. There is not much evidence of foreign private-sector long-term investment beyond many inquiries and the buying of existing assets.

Foreigners seem to be waiting to be presented with a list of projects. But, government officials argue, South Africa is a free market where firms ought to conduct their own research and investigations.

# No stalling the rebound

(74A)

By MAGGIE ROWLEY
Deputy Business Editor

THE rebound in the country's economy is expected to continue in the fourth quarter registering a growth rate of close to 2,5% for 1994 as a whole and between 3% and 3,5% for the following two years, says Southern Life economist Sandra Gordon.

In her latest quarterly 'Economic Comment, Gordon warns however that if the current economic recovery was to be sustained into 1995 and beyond, it was vital that SA began to attract substantial net foreign capital inflows to enable the current account to remain in deficit while meeting scheduled debt commitments.

She points out that while previous recoveries have been consumer driven, the main engines of the current upturn would be inventory restocking and gross domestic fixed investment (GDFI) which was expected to show an estimated 4,5% increase this year surging to 10% in 1995.

This would be predominantly driven by inventory restocking, expansion and modernisation of capacity and RDP-related expenditure. The removal of import surcharges on capital goods, improved business confidence and high corporate earnings growth will further support this trend while investment projects already planned were expected to underpin the rebound in fixed investment spending throughout 1995 and well into 1996.

The country's external trading environment was expected to continue its buoyant trend during the remainder of 1994 and throughout next year.

"Firstly the increasingly synchronised recovery in international growth rates is expected to boost growth in world trade which, coupled with SA's readmittance into the international community, should ensure increased export volumes during the year ahead.

"Secondly, stronger world demand for commodities is expected to underpin the rising trend in commodity prices which began in late 1993. Since metal and mineral products account for about two thirds of SA's total exports, the rising trend in commodity prices should enhance our export performance significantly," she forecasts.

Turning to the balance of payments, Gordon says while there appears to have been a reduction in capital outflows since the election, the improvement still appeared to remain largely dependent on short-term capital inflows.

"Since limited direct foreign investment appears to be forthcoming and the government remains reluctant to borrow from the IMF and World Bank, SA will have to rely on funds raised abroad."

She points out that the disappointing credit ratings SA received from two international agencies recently could encourage potential investors to further delay their investment decisions until the country had exhibited its commitment to sound economic policies.

On interest rates, Gordon forecasts a further one percentage point hike in the Bank rate during the first half of 1995 with another possible increase around mid-1995."

Balance of payments considerations, she says, might have been one of the major factors behind September's earlier than expected Bank rate hike.

"The hike in interest rates was apparently intended to encourage the continued use of off-shore finance for trade despite rising international interest rates. The Reserve Bank also cited concerns about the rebound in inflation, money supply growth and credit extensions."

Turning to inflation, Gordon said a number of factors had recently emerged which threatened to reverse the declining trend. An average rate in the PPI of just under 9% was anticipated during 1994 as a whole against 6,7% last year. PPI was expected to remain in double digits throughout 1995 but was likely to stabilise during the second half, ending the year below 11%.

The CPI, which usually tracks the PPI with a lag of about nine months, was now expected to average 9% during the year as a whole reaching a level of more than 12% during the second quarter before stabilising and ending 1995 closer to 10%.

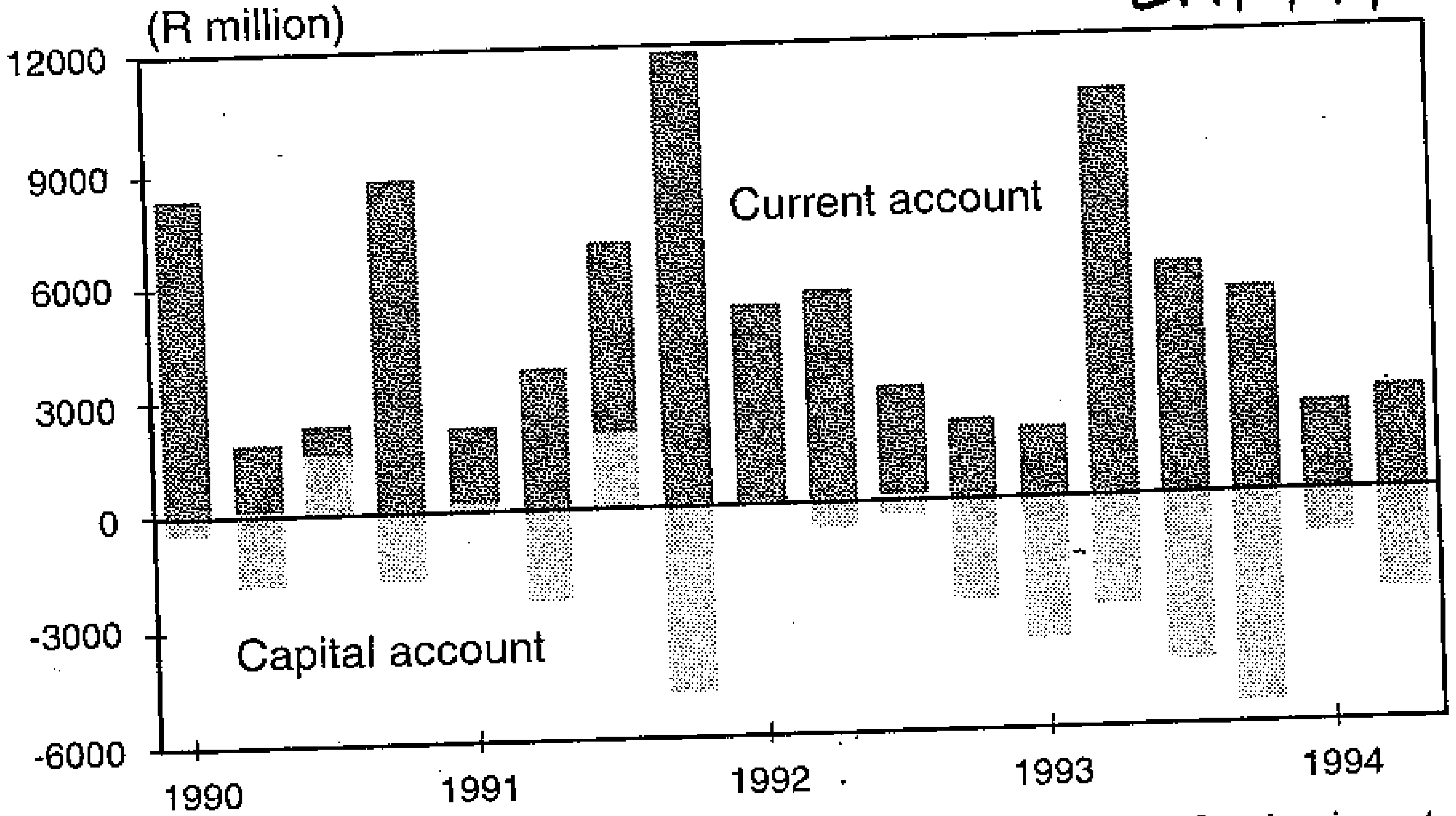
The reversal or at least reduction in net capital outflows, she said, should support the rand at current levels of around R3,55 to R3,60 this year.

On the financial rand, Gordon said the timing of the abolition of the foreign investor currency would ultimately be determined by local and international confidence in SA.

"It appears likely that the scrapping of the finrand might have to be delayed until after the 1995/96 Budget when investors will have a clearer view of the new government's commitment to sound economic management," she said.

**Balance of payments**
**current and capital accounts**

ET1/11/94



# Competitive SA can cut BoP chains, says Stals

B/Day 15/11/94

MUNGO SOGGOT

SA's balance of payments (BoP) would only stop stifling internal growth potential when the country became more competitive, Reserve Bank Governor Chris Stals said yesterday.

SA's economic history was peppered with examples where economic expansion had had to be aborted due to BoP constraints, Stals told the Euromoney conference in Midrand.

He said SA had a high propensity to import — particularly because of the manufacturing sector's need for new machinery and equipment — without having adequate foreign reserves to finance a deficit on the current account of the BoP.

SA therefore had to attract foreign capital to support economic growth.

Stals said the new political dispensation had already triggered changes in the BoP. It was possible that SA would have a current account in deficit for 1994 — the first annual deficit since 1984.

At the same time, the Reserve Bank's net reserves had risen R2,9bn during the third quarter and a further R2,2bn during October.

Countries were able to raise their growth potential when they imported more than they exported, while being in a position to finance the resulting current account deficit with foreign exchange. Ideally, developing countries would run a continuous deficit on the current account, covered by a net inflow of foreign capital.

But borrowing foreign funds was not a permanent solution for "propping up" SA's economic growth potential. "There is no easy way out of the dilemma — the trade unions, entrepreneurs, macroeconomic policy makers and political leaders will sooner or later just have to meet the challenge of making SA more competitive. Only then will we be able to escape from the BoP constraint on economic growth." (74A)

Stals said it was likely that a medium-term rise in domestic expenditure would trigger a further rise in imports, so a deficit on the current account of the BoP would have to be funded for some time.

"The prospects are good, however, that these deficits will be covered with net inflows into the country."

He said the recent deficit on the current account of the BoP stemmed partly from importers' misjudgment. Importers had assumed that the rand would depreciate substantially once the financial rand had been abolished, and they had hence banked on a much stronger uptick in consumer demand.

"As it turned out, the rand appreciated slightly and consumer demand did not rise as expected."

# Trade surplus bodes ill for finrand move

CT 24/11/94 (74A)

By AUDREY D'ANGELO
Business Editor

THE trade surplus soared by more than 500% to R847,6m last month compared with the disappointing R167m in September.

But economists pointed out that the rise was due mainly to a seasonal drop in imports rather than a hoped-for rise in exports.

Exports totalled R7,7bn, almost unchanged from R7,6bn in September, but imports fell by more than R500m to R7,4bn.

Sanlam chief economist Johan Louw said it was fortunate that the capital account was improving. But with the current account likely to show a deficit for the year he did not think it likely that the financial rand would be abolished until late in 1995.

SA Foreign Trade Organisation (Safto) economist Linda Smith pointed out that SA companies usually deferred imports of equipment and materials until the new year to avoid holding big stocks over the Christmas holiday period.

"Thus, the improvement in the trade balance should be seen as a seasonal factor rather than a longer-term decrease in imports."

She thought it unlikely that the improvement in the surplus would be sufficient to stave off a current account deficit for 1994 "since it is still significantly below the levels achieved in the first half of the year."

Smith said "massive increases" in imports of machinery and transport equipment had been the problem area on the current account over the previous two months. These had slowed in October, particularly in the case of machinery imports. "This is significant as machinery imports make up 32% of our imports. Any slowing down in that category makes an important impact on imports as a whole."

The rate of vehicle imports fell by 3,4% in October, indicating that domestic production was getting back on track. "Unfortunately the improved production conditions have not fed through into exports as vehicle exports continue to be relatively sluggish.

"SA motor manufacturers are using almost all domestic production to meet the needs of the local market. Once the production backlog is met exports should start to rise."

Exports of base metals improved by 12,3%. Smith said this was important because base metals accounted for nearly 13% of total exports.

"Exports of prepared foodstuffs showed a healthy improvement of 17%."

This meant this category — mainly fruit and nuts — was making significant gains in overseas markets.

Johan Louw said the surplus was disappointing, with exports more or less at the same level as in October a year ago. This was worrying in view of the international upswing.

Taking services into account, it meant that the current account was probably in deficit for about R600m.

It was fortunate that the capital account was improving. Reserve Bank Governor Chris Stals was "very optimistic about the capital account, so I don't think he's too worried about the balance of payments. But I don't think

It was fortunate that the capital account was improving. Reserve Bank governor Chris Stals was "very optimistic about the capital account, so I don't think he's too worried about the balance of payments. But I don't think we're ready to scrap the financial rand. It will probably happen late in 1995."

# Clear export incentives urged

CAPE TOWN — The slump in clothing exports this year highlighted the need for fast-track measures to remove uncertainty about export incentives, the National Clothing Federation (NCF) said.

Federation economist Arnold Werbeloff said exports fell to R154m in the first six months of the year compared with R399m in the same period last year. Imports in the first six months of the year rose to R225m compared with R194m in the first six months of last year. 74-G

The federation said the poor export performance was due to uncertainty about future export incentives, the shortage of fabric from local suppliers, the local economic upswing and the low priority placed on exports.

The industry had to address management weaknesses such as a shortage of visionary leadership, skills in market analysis and commercial and technical design and up-to-date production systems. The government had to deal with the fact that there had been no clear economic and industrial strategy for decades. — Reuter.

# SA is UN's 2nd largest debtor

74A

CT 8/12/94

NEW YORK. — With negotiations on SA's UN dues still uncompleted, the country now is the second largest debtor for the regular budget and the fourth largest overall.

Figures for the end of November, just released, show that member states owed the organisation $2bn, of which $510m was for the regular budget and $1,5bn for peacekeeping.

The US led the debtors' list, with $666m owed overall, including $270m for the regular budget and $396m for peacekeeping.

SA's overall debt was $103m, with $57m owed on the regular budget.

It is still assumed that the republic will have much of its debt excused, given the denial of its participation rights for 20 years, and in the meantime it has been allowed to vote like a paid-up member. On the other hand, with so much owed by member states, including Russia ($532m) and even France ($74m), the UN cannot afford to be overly lenient if it is to meet its obligations.

FOREIGN TRADE : BALANCE OF PAYMENTS - (A)

1995

# Foreign capital pours in to boost economy

☐ *Renewed confidence in SA — Reserve Bank*

ARG 8/12/95 (74A)

**Business Editor**

FOREIGN capital is pouring into South Africa, reflecting renewed confidence in the economy, Reserve Bank figures show.

Reserves of gold and foreign exchange, which measure the country's accounts with the rest of the world, climbed nearly R1,5 billion to R13,4 billion in November.

This is the highest level this year, beating most economists' forecasts.

The value of gold reserves fell R135 million to R5,4 billion, because the bank sold part of its gold holdings. But reserves of foreign exchange jumped R1,6 billion to more than R8 billion.

Economists said the figures reflected strong inflows of foreign capital.

South Africa needs capital inflows to finance a shortfall on the current account of the balance of payments.

Rising imports — needed to revamp the country's ageing industrial machinery — and sluggish exports have left the current account in the red, but inflows of capital have offset the monthly deficit.

The Reserve Bank does not publish breakdowns of capital inflow figures.

But Reserve Bank governor Chris Stals has said recent indications are that a higher proportion of the inflows are longer-term, less volatile funds, and not just money flowing into the Johannesburg Stock Exchange which could leave the country again at short notice.

But, even with the November inflows, the gold and foreign exchange reserves still are sufficient only to finance about six weeks' of imports.

A minimum of three months of import cover is usually considered a comfortable level for a country's reserves.

# Samsung considers R200m TV tube investment for SA

BD 20/12/95 (73) (748) (1899)

Paul Vecchiatto

KOREAN electronics group Samsung would consider investing $200m to establish a television tube factory in SA, the company said yesterday.

Samsung SA MD Brian Cape said the company intended to build eight new colour picture tube plants worldwide in the next five years. SA's market would be able to support a plant producing a million units a year.

The go-ahead would hinge on suitable supply-side incentives from SA's government. Rival plans by Amic's joint venture with Daewoo would have to be shelved, he said.

Amic's plans have been on hold for 18 months pending clarity from government on investment incentives. Amic said yesterday the plans would be scrapped if government failed to provide suitable answers by April.

Cape said: "The local market will be worth between 550 000 and 580 000 colour television sets next year." He expected demand to increase to approximately 1-million by 2003.

The plant — which would take three years to establish — would allow Samsung SA and other local manufacturers to export televisions.

Amic said it had shifted its demands to government from import tariffs to supply-side incentives. Director Laurie Olivier said a decision was needed by April. The opportunity would be lost unless construction started by July.

Tubes accounted for half the cost of television sets. It was cheaper to import assembled sets than to import parts for local assembly, Olivier said.

Samsung's proposals emerged just days after Phillips SA warned that it would close its Johannesburg plant, blaming high costs and an unstable political climate. However, Samsung said the workforce at its Northwest assembly plant was as productive as its Korean staff, given the right training.

The plant assembles more than 100 000 sets each year.

Non-gold exports come to the rescue

# Trade balance bounces back into the black

BD 22/12/95 (74A)

Greta Steyn

SOARING non-gold exports and a fall in imports combined to push the trade balance back into the black to the tune of about R600m in November, from a huge R1,071bn deficit in October.

Customs and excise figures released yesterday showed exports rose to R8,94bn from R8,01bn in October — despite another weak performance from gold. Imports fell to R8,34bn from a massive R9,08bn in October.

Economists were upbeat about non-gold exports, saying they had come to the rescue at a time when foreign exchange was needed desperately to finance the country's seemingly insatiable appetite for imports.

Excluding the category into which gold falls, exports rose an impressive 30% up to November this year, compared with the same period last year. The category into which gold falls had performed dismally, with a decline of about 13% up to November. Platinum and arms are also part of the same "unclassified" category of export goods.

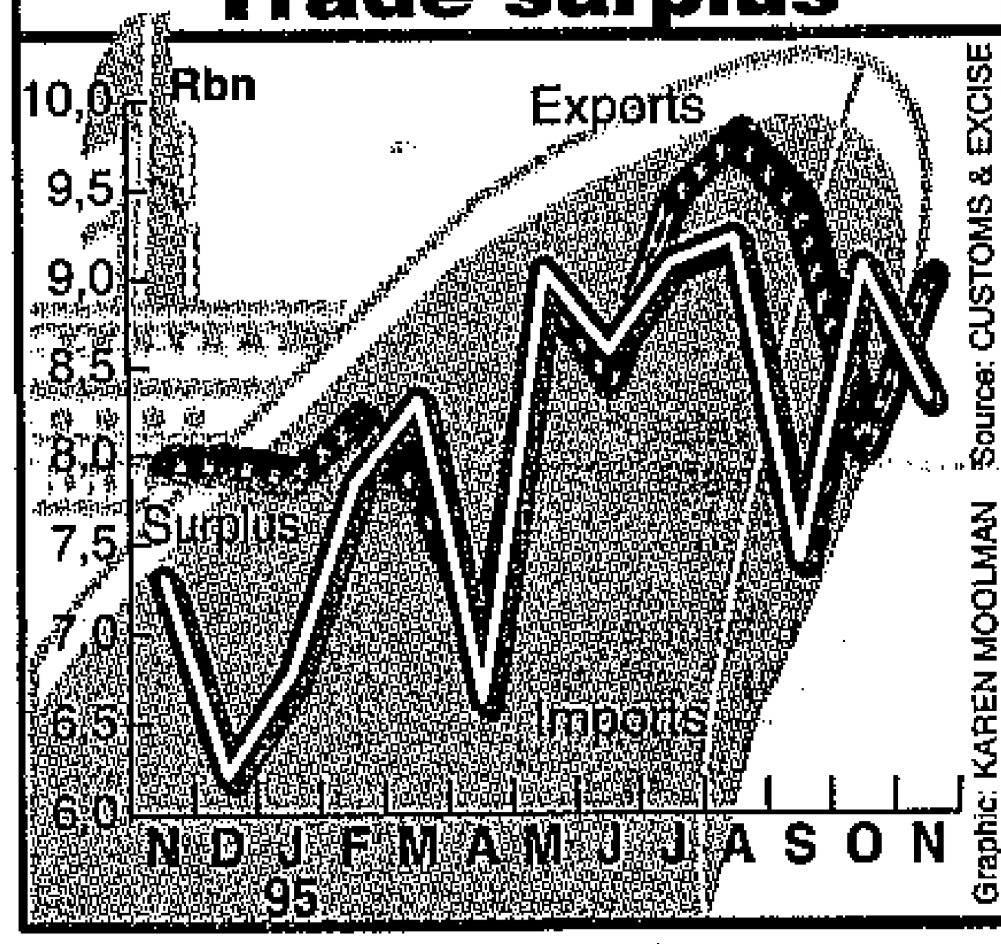
Transnet economist Mike Schüssler said the healthy performance of non-gold exports had probably saved the country two percentage points in Bank rate hikes. "Big structural changes are taking place. Manufacturing is taking up much of the slack," Schüssler said.

Nedcor economist Dennis Dykes described gold's export performance as "pathetic". By contrast, minerals and base metals exports were booming, with increases of 66,5% and 33,4% respectively for the 11 months to November compared with the same period last year. "SA has benefited from the overseas upswing, but can it be sustained? We have already seen some commodity prices soften," he said.

The SA Foreign Trade Organisation pointed out that base metals and minerals together accounted for more than R25bn for the year to date, not far short of gold and platinum. "Exports of ma-

Continued on Page 2

Trade surplus




## Trade balance

(74A)

Continued from Page 1

BD 22/12/95

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The fall in imports surprised economists, who had expected demand to remain strong after the scrapping of surcharges in October. However, they warned against making too much of one month's figure.

Old Mutual economist Terence Moll said SA was heading for a current account deficit of more than 2,5% of GDP. This was compared to a surplus of 1,5% two years ago.

The current account is the trade balance less net payments for "invisible" trade such as dividends, interest, freight and insurance.

Moll said it was worrying that SA had to rely so heavily on foreign capital inflows to finance the deficit when the economy was not growing that rapidly. He was impressed with the export performance, "but the hassle is that imports are growing very fast".

Reuter reported that the monthly abstract of the trade statistics suggested either that SA had quirky import habits, or the trade figures were disturbingly unreliable.

According to the monthly abstract of trade statistics, about seven-million buses were imported during the first half of 1995, up from the one bus which made it into the country during the same period in 1994.

But the cost of imported buses during the period — reflected in official figures as 38c each compared with last year's R303 144 — goes some way to explaining their newfound popularity.

Racing cars with a seating capacity for one person and an engine capacity of over three litres are not as much of a niche market as one might suppose.

In the first half of 1995, 296 578 such vehicles — more than the total number of passenger vehicles produced in SA annually — were supposedly imported at a cost of R69 998 each.

Non-gold exports come to the rescue

# Trade balance bounces back into the black

(74A)

BD 22/12/95

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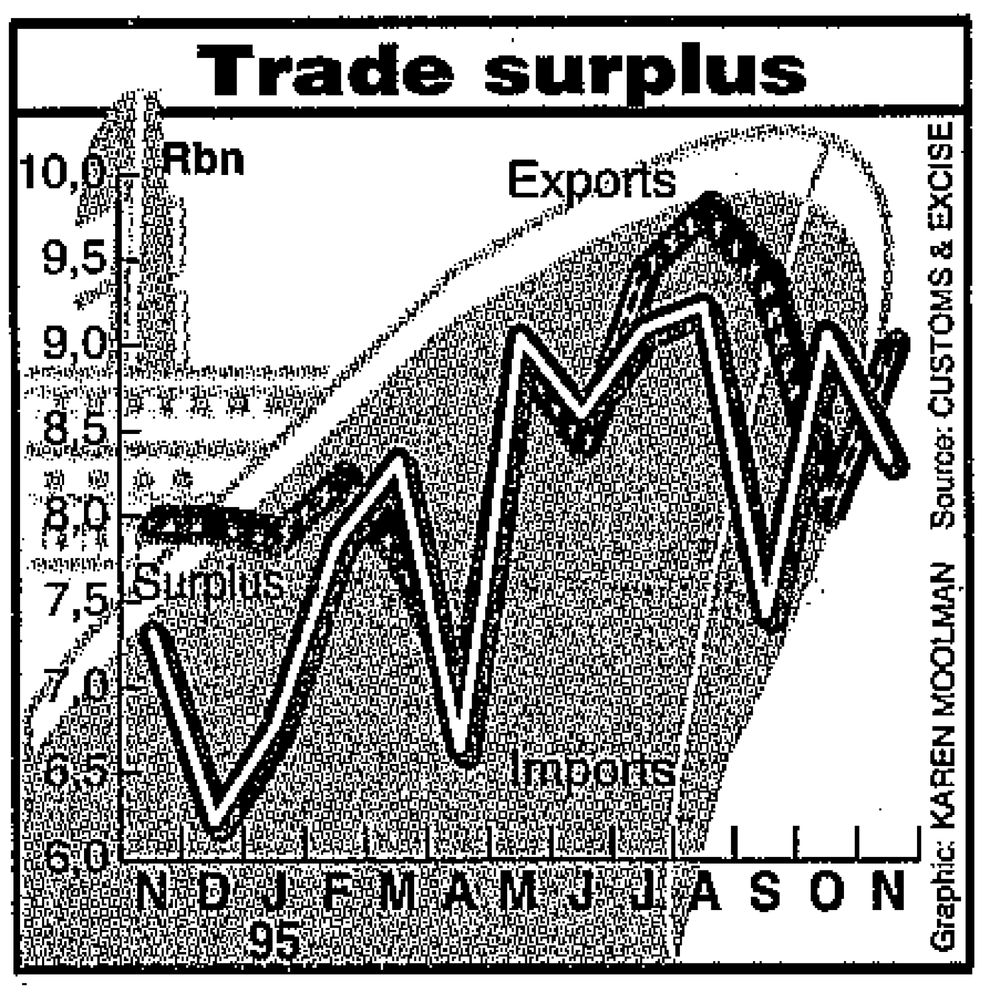


## Trade balance

(74A)

BD 22/12/95

Continued from Page 1

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# FOREIGN TRADE SURPLUS SHRINKS

(74A) FM 6/1/95

**Data for** the first 11 months of 1994 shows the trade surplus running at R12,1bn — which is 34,2% lower than in the same period in 1993.

With net service and dividend payments for the year expected to be R13bn-R15bn, an unusually high trade surplus would be required in December to create a current account surplus for the year.

Recent trends suggest this is unlikely. The monthly trade surplus was last above R1bn in July; and November's R610,6m surplus fell short of expectations — the last two months of the year usually see exports rise.

The graph shows where the turnaround has come. Imports of the two most important categories, machinery and vehicles & transport equipment, have grown sharply, in line with increased capital expenditure going into the economic recovery.

Overall imports were at R69,9bn up to the end of November, compared with R54,6bn over the same period in 1993.

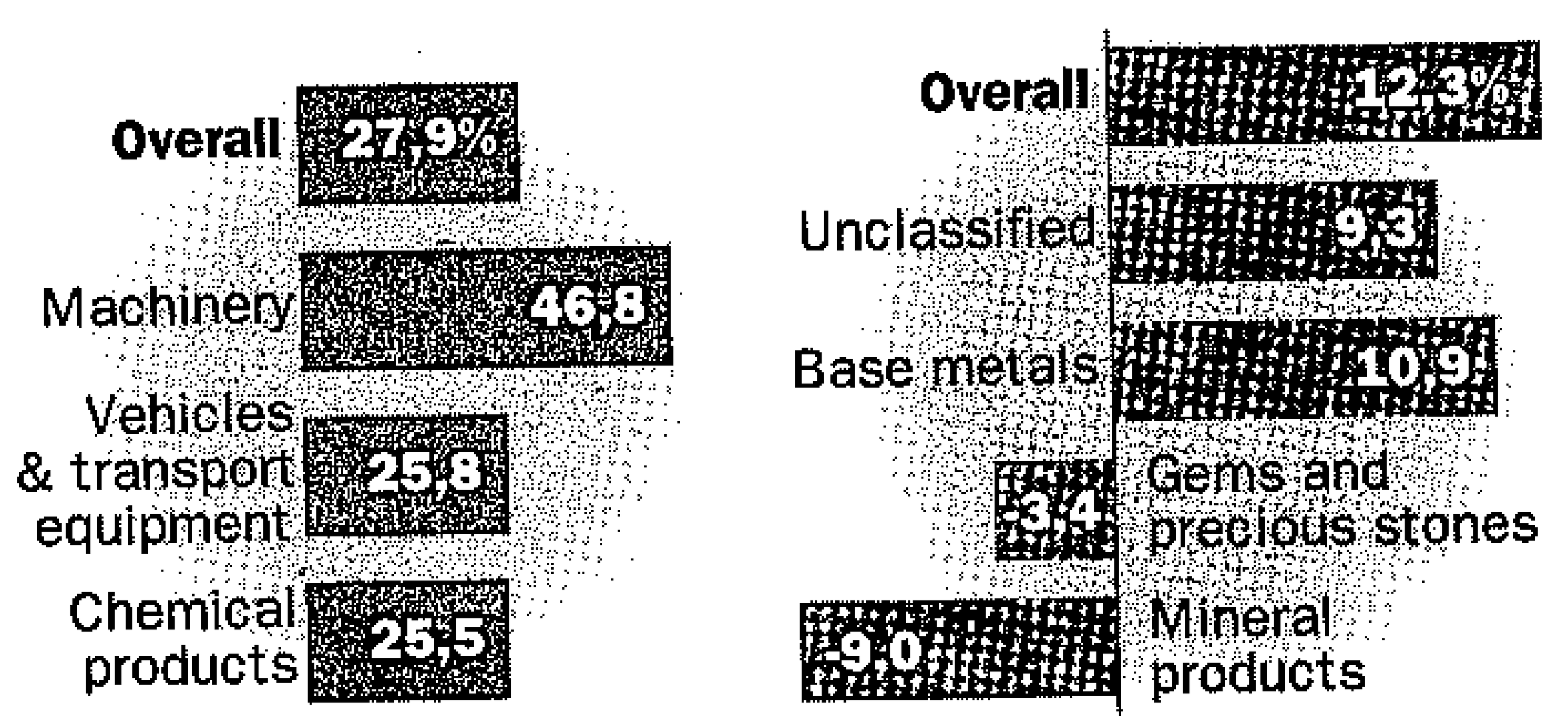
Exports have suffered from sluggish growth in exports of primary products. The categories unclassified goods (which include precious metals), base metals, gems & precious stones and mineral products, which together made up 70% of exports up to the end of November, all performed disappointingly. An improvement is expected as new contracts are negotiated for commodities and exporters get the benefit of higher prices in many commodity markets.

Total exports over the period were at R82bn, compared with R73bn over the same period in 1993.

With economic recovery taking place, a current account deficit is to be expected. But it will have to be financed by inflows on the capital account. Government has bought some time by placing a US$750m global bond. Only a commitment to sound economic policies can bring the direct investment that is required to ensure capital inflows remain positive.

## IMPORTS GROW... WHILE EXPORTS SLOW

**% change** for period Jan-Nov 1994 compared with Jan-Nov 1993




Source: CUSTOMS & EXCISE

# SA owes UN R364 million

CT 9/1/95

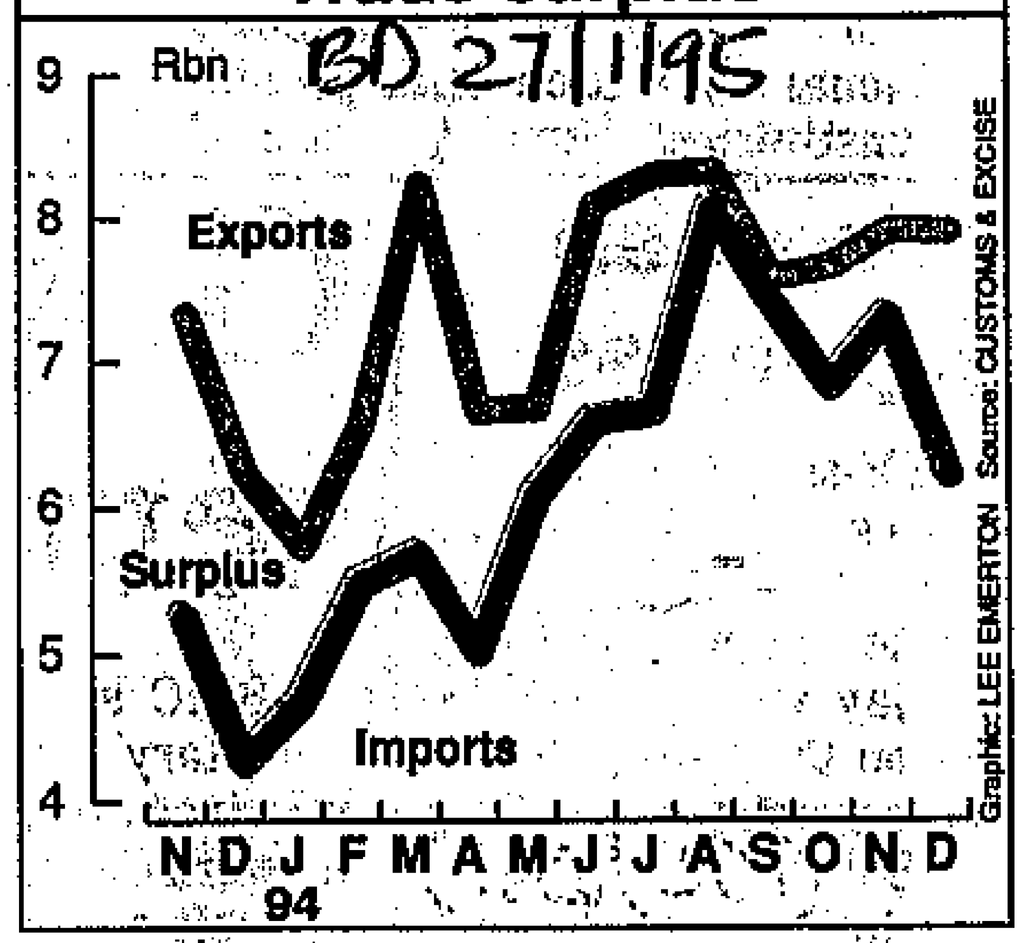
UNITED NATIONS. — South Africa owed the UN \$104 million (about R364m) at the end of 1994, UN figures show.

It owed \$57 million (about R200m) in regular budget arrears and \$47 million (about R164m) for peacekeeping.

UN members together owed \$1,78 billion (about R6,23bn) at the end of the year.

Russia owed \$507 million (about R1,8bn) and the United States was \$469 million (R1,67bn) in arrears. — Sapa-Reuter

(74A)




# Trade surplus leaps as imports drop

MUNGO SOGGOT (74A5)

A SHARP drop in imports in December sent the trade balance soaring to R1,69bn from R610m in November, Customs and Excise figures released yesterday showed.

Economists had feared the surge in imports, which began in the third quarter mainly on increased demand for capital goods, would not abate this soon. SA's high import bill pushed the trade balance down to R167m in September. But they warned that imports often slackened in December and a lame export performance was still affecting the trade balance.

Imports fell more than R1bn to R6,23bn (R7,32bn), but exports were virtually static at R7,92bn (R7,93bn). The SA Foreign Trade Organisation (Safto) said the annual trade surplus came to R13,75bn, compared with R20,4bn in 1993.

Economists said the figures meant SA would sustain a deficit on the current account of the balance of payments — the trade balance less net payments for services such as tourism, interest and freight charges — of up to R2bn for last year.

"One swallow doesn't make a summer," said Ed Hern Rudolph economist Nick Barnardt. "This improvement would have been more encouraging if it had come from stronger exports."

Rand Merchant Bank chief economist Rudolf Gouws said the panic in October and November that imports would continue to surge seemed unwarranted, but imports would increase again soon to feed the pick-up in fixed investment. He was confident SA would this year boast a better export performance than last year's pedestrian showing.

☐ To Page 2

# Trade balance

(74A) BD 27/1/95

☐ From Page 1

Safto economist Linda Smith said base metal exports were up R800m from November, but earnings from gold and diamond exports — which accounted for a major portion of total export earnings — had dropped. Gold exports, which remain listed as "unclassified", were down 10,5% at R2,29bn, and diamond exports fell 32% to R818m.

Smith said about R500m of the drop in imports came from both the machinery and chemical categories. There was a R370m fall in machinery imports. It seemed as if the large, capital-intensive Columbus Stainless Steel and Alusaf projects had met their import requirements.

Last year's import surge was unlikely to be repeated this year as the economy was not growing fast enough to sustain this momentum. "Furthermore, no large-scale investment projects like Columbus and Alusaf are planned. It is likely that imports will remain at a high, but stable, level on the back of sustained business confidence."

# Trade surplus rockets up

74A

CT 27/1/95

By AUDREY D'ANGELO
Business Editor

SOUTH Africa's trade surplus bounced up to R1,69bn in December — a rise of 177% — after falling in November to R610,6m from R847,6m in October.

But exports were almost unchanged at R7,92bn compared with R7,93bn in November. The higher surplus was due to a seasonal fall in imports to R6,23bn after they soared in November to R7,32bn.

Economists, estimating that the deficit on the current account of the balance of payments (BoP) for 1994 would be in the region of R3bn, said they expected imports to rise again in coming months.

Boland Bank economist Francois Jansen said it was important that South African industrialists did not follow their usual custom of switching production away from the export market when demand in this country rose.

Jansen said exports should rise with the opening up of new markets and the weakening of the rand, which made South African goods more competitive in foreign markets.

The weaker rand, and an expected rise in interest rates, could cause imports to slow down — particularly as exchange controls were not now expected to be lifted in the next few months. "A lot of imports towards the end of last year were due to people were rushing to get them because they expected the rand to fall when exchange controls were lifted."

But if the trend for disappointing exports and high imports continued there would "definitely be another deficit in 1995".

He pointed out that retail figures for the last quarter had shown that spending exceeded production. This indicated continued imports to meet demand.

Jansen said South African manufacturers must "think bigger" and increase production to cope with both export and domestic demand. They had shown a tendency in the past 10 years to neglect the export market when domestic demand was sufficient to take up their production.

Sanlam chief economist Johan Louw said there had been a big improvement in the December trade surplus. But it was too early to get excited. It was normal for imports to fall in December.

The deficit on the current account of the BoP for the quarter had fallen to R1,2bn compared with R2,2bn in the third quarter. But for the year as a whole there was a deficit of about R3bn.

Nick Barnardt, economist with stockbroker Ed Hern, Rudolph, said fixed investment in machinery and similar goods was accelerating. Retail sales had been bigger than expected which meant that "retailers will be importing heavily in the next few months."

SA Foreign Trade Organisation economist Linda Smith said machinery and chemical imports were R500m less in December than November.

Imports of plastic, paper and pulp and textiles were at their lowest level during the quarter.

It was likely that imports would remain at a high but stable level on the back of sustained business confidence.

The value of base metal exports in December was R800 higher than November but "the positive effect of this was diluted through a fall in the value of gold and diamond exports."

# IMPORT MACHINE

**Just how** important the boom in capital expenditure has been in the change in SA's balance of payments is demonstrated in the trade statistics for 1994. These show how growth in imports of the category machinery & equipment — which includes capital imports — has reduced the overall trade balance.

The trade surplus for the year stands at R13,8bn, down from R20,2bn in 1993. Almost all of that can be put down to an increase in the value of machinery imports, which are up to R25,1bn from R17,1bn, a rise of 46,6%.

The category vehicles & transport equipment is also up, by 28% to R11,4bn. (74A) FM 3/2/95

Of the other major categories chemical products have risen 26,6% to R8,4bn, and plastics 23,7% to R3,3bn.

Only unclassified items (including crude oil) have fallen — 17,6% from 1993 to R4,4bn. But this has been because of only modest rises in crude oil prices in 1994 and the utilisation of large existing stocks.

Overall, imports for 1994 are 29% higher at R76,2bn.

Exports of all items rose only 13,4% to R89,9bn.

**THE WEEK AHEAD** by Mungo Soggot

# January trade surplus 'likely to fall'

BD 20/2/95

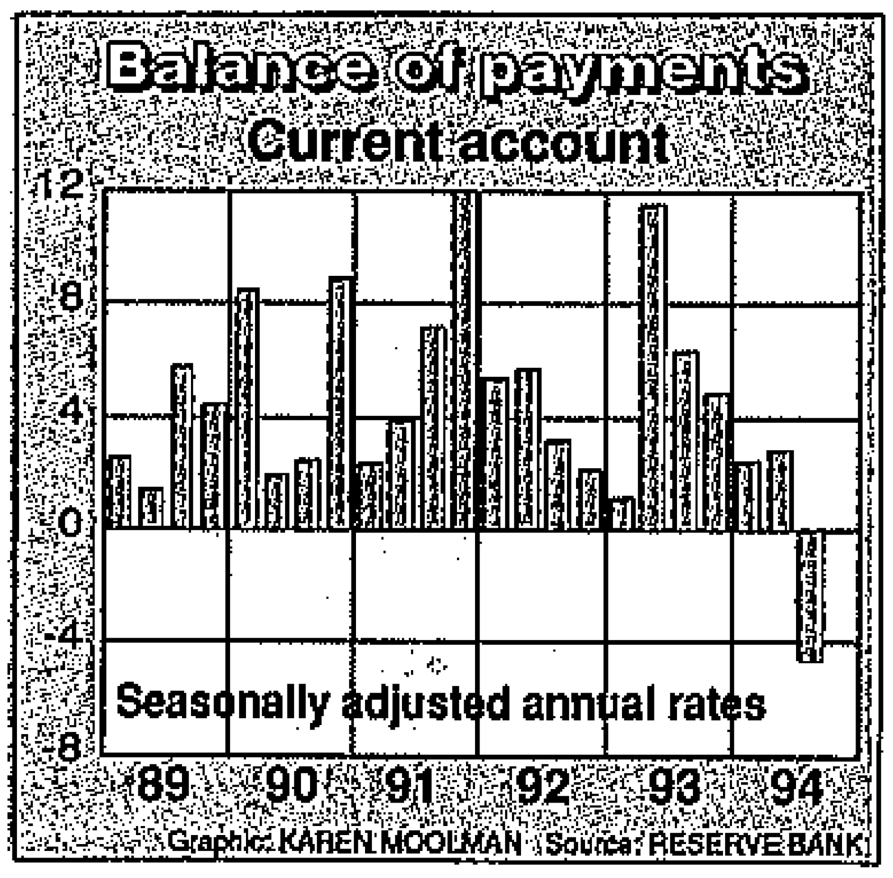
JANUARY's trade surplus is expected to be lower than December's R1,69bn as it is a seasonally high import month, making up for the slack festive period.

Forecasts for the figures, due from Customs and Excise this week, ranged between R700m and R1bn.

One economist said January's exports could suffer from a subdued gold price, but higher commodity prices could be reflected in new coal and base metal export contract prices. Lower commodity prices triggered by fears of a slowdown in the US economy could, however, affect contracts made in coming months.

Sanlam senior economist Pieter Calitz said deciduous fruit and wine exports were doing well. Exports would probably improve this year from last year's dull showing, which had been weighed down by a poor gold exports performance.

Economists say it will take a few months to discern any shift in trade trends from last year. Most economists expect the deficit on the current account of the balance of payments (BoP) to widen this year from last year's R2bn as SA's import tab grows with the economic recovery. The current account is the trade surplus less net service payments. But some dissenters say last year's binge — which pushed imports up 29% on 1993 in rand terms — was a once-off factor triggered by special factors unlikely to resurface this year.




Many manufacturers who thought the financial rand was about to be scrapped beefed up their capital equipment imports last year for fear of being stuck with a weaker unified rand. They will have little to import this year. The motor strike also ate into the trade balance as manufacturers imported components to make up for lost production, while SA increased oil imports, fearing that turmoil in the Gulf would escalate. Last year's other special factor was the import-hungry, capital-intensive Columbus Stainless Steel and Alusaf projects which were now nearing completion, said one economist.

But she said the absence of these factors was unlikely to stifle import growth enough to push the current account into surplus. "There is still a lot of obsolete equipment to be replaced." However, Econometrix economist Tony Twine said imports could slacken enough to give SA a surplus on the current account.

Economists have said a deficit is not a problem as long as there are capital inflows to finance it.

Reserve Bank Governor Chris Stals said last week improvements in the capital account of the BoP had been "more than sufficient" to cover the current account deficits. He said that in the fourth quarter of last year, there had been a net inflow of long-term capital of about R4,5bn when there had been an overall net inflow of about R3,3bn. An economist said this meant there had been a short-term capital outflow of about R1,2bn during the quarter. Although R2,6bn of the R4,5bn came from the global bond issue, the long-term capital inflows were excellent news.

Nedcor said in its economic profile large capital inflows remained crucial to the build-up in reserves as the current account deficit was likely to widen to about R4,6bn. Long-term capital inflows were preferable to volatile short-term ones, particularly if linked to foreign direct investment.

# ANC sets up body to administer discipline

■ BY MONDLI MAKHANYA
POLITICAL REPORTER

The ANC yesterday responded to the plethora of corruption charges facing it by appointing a high-powered committee to administer discipline in the organisation.

The six-member committee is to be headed by Water Affairs Minister Kader Asmal. It will have powers to investigate members, conduct hearings and penalise ANC members who breach the ANC's constitution and code of conduct.

It includes three other Cabinet ministers.

SOWN 27/2/95

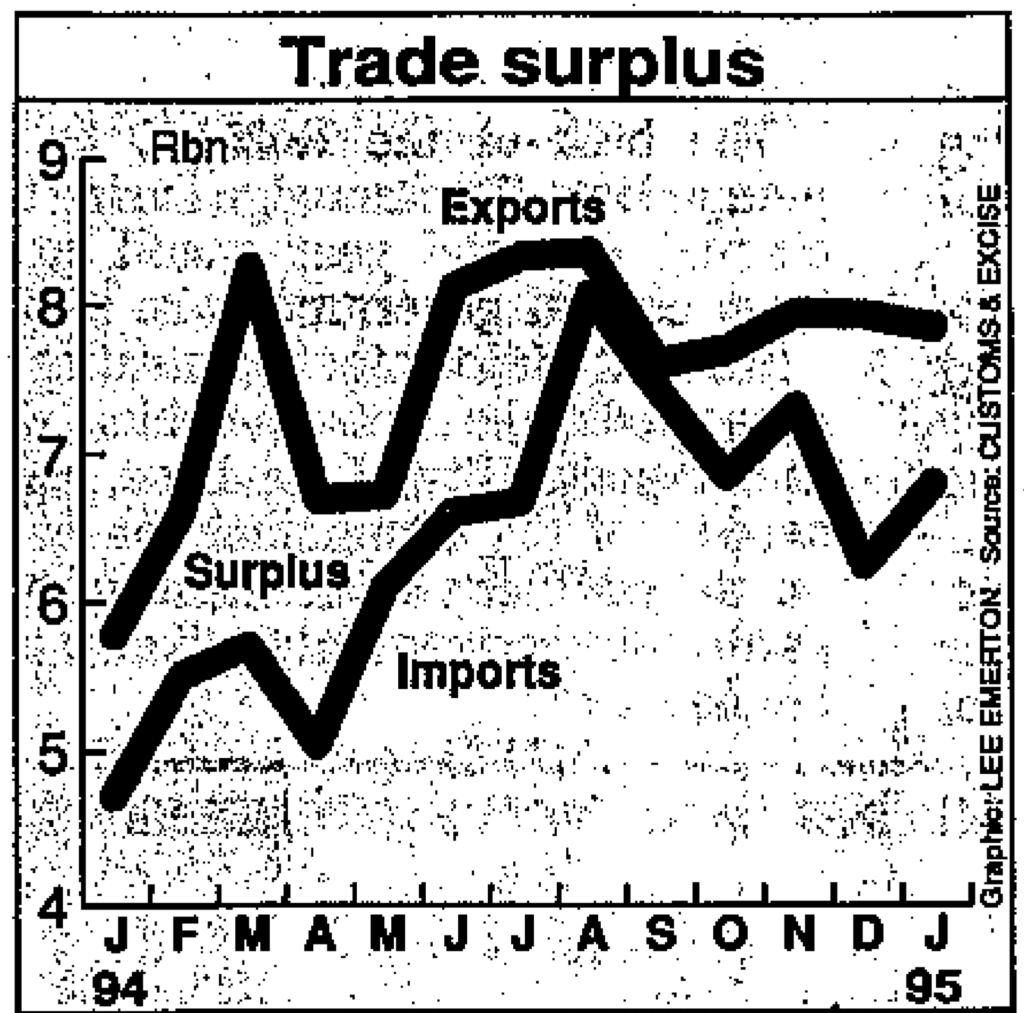
"This committee's work is going to go to the soul of the ANC. We are not going to launch McCarthyite witch-hunts but we want to obliterate corruption before it becomes a norm in the ANC," said a national executive committee member.

The committee would also counsel members in order to help them avoid "the pitfalls inherent in the lobbying and other commercial activities of the private sector and other forces".

The committee will begin by investigating the allegations of corruption against ANC members.

The only case mentioned by name was former North West agricultural MEC Rocky Malebane-Metsing, whose case will receive "immediate attention".

74A




BD 28/2/95

# Surge in imports cuts trade surplus

MUNGO SOGGOT (74A)

THE trade surplus shrank to R1,04bn in January from R1,69bn in December after a renewed surge in imports, Customs and Excise figures released yesterday showed.

Most economists said the figures matched market expectations. Imports usually picked up in January after the dull December period. It was heartening that a 38% year-on-year increase in exports had offset a 49% increase in imports.

The figures showed imports up at R6,79bn (R6,23bn) and exports down slightly at R7,84bn (R7,92bn).

Transnet economist Mike Schüssler said after adjustment for exchange rate movements, import volumes were up 41% over January last year. "The actual increase in these imports is stronger than expected and shows how strong the SA economy is."

SA Foreign Trade Organisation (Safto) economist Linda Smith said iron and steel exports in January were significantly down on average levels reached in the last few months of last year. It was possible that buoyant local demand was stifling exports, as imports of metals were up 17% on the last quarter of 1994. Higher coal prices helped iron ore and coal exports — which were usually lower than base metal exports — register the second largest contribution to overall exports after gold.

Gold exports were slightly up on the average of the last three months of last year, probably because of higher mid-January prices, she said.

The figures showed vehicle exports up 334% year on year, although economists said this was largely because the figures

☐ To Page 2

# Trade surplus

(74A) BD 28/2/95 ☐ From Page 1

came off a low base from last year. Schüssler said Volkswagen's Jetta exports to China and BMW's recent 3 series exports were also behind the increase. Smith said vehicle exports were up 97% over the average in the last quarter of 1994. This showed the industry had recovered from last year's strike action.

Schüssler said machinery imports, "a good indication of growth in the local economy", were up 41% year on year, while cement and glass imports, also good indicators of growth, were up 45%. Smith noted that machinery imports were down 3% on the last quarter of last year.

Schüssler said mineral products now included oil imports, previously under "unclassified". The removal of import duties had lifted vehicle imports 79,4% above last year, footwear 71,2% and chemicals 46,7%.

Star 28/2/95 (74A)

# Rising imports depress trade surplus

The monthly trade surplus fell R647 million to R1,043 billion in January as imports resumed their upward trend and exports dropped, Customs and Excise figures show.

Imports rose to R6,797 billion (R6,23 billion last December), but were below the R7,32 billion in November.

Exports were muted, declining slightly to R7,84 billion from R7,92 billion in December.

The trade surplus was down from December's R1,69 billion and the surplus of R1,136 billion in January last year.

Foreign Trade Organisation (Safto) economist Linda Smith said yesterday that on a seasonal basis imports and exports were typically depressed.

"They tend to start off the year fairly low. The bulk of expenditure (on imports) and revenue (from exports) results in a bulge of trade, which generally occurs in the middle of the year."

She said high import levels could be expected to continue this year, but probably not at the levels of 1994, which pushed the country's balance of payments into a deficit late last year.

The higher level of imports and exports in January compared with R4,548 billion and R5,684 billion respectively in the same month last year indicated improved economic performance domestically and in the markets of main trading partners.

Imports of machinery and equipment, which largely fuelled SA's high import bill last year, were three percent down in January, compared with the last quarter of 1994.

However, Smith noted last month's machinery imports were still significantly higher than those of January last year.

"This reflects the sustained improvement in domestic activity over the last six months."

She said it appeared Customs and Excise had re-classified oil imports from the unclassified category (secret or strategic goods, including armaments) to the minerals category.

The other unclassified goods and balance of payments adjustments category showed a R10 million rise in imports, while the imports of minerals category rose to R489,4 million.

Smith said the base-metals category had been dissapointing. Base metals, mainly iron and steel, exports of R798,6 million in January were significantly lower than levels of the last few months of 1994. — Sapa.

# Trade surplus falls as imports advance

Business Staff (74A) 28/2/95 ARG

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(74A)

# Imports continue to dent surplus

CT. 28/2/95

**By AUDREY D'ANGELO**
**Business Editor**

RISING imports — to be expected with the continuing upturn — pushed SA's trade surplus down by R647m to R1 043bn in January, compared with R1,6bn in December.

Imports rose to R6,797bn after a seasonal dip to R6,23bn in December. They were 49% higher than in January last year.

Exports slipped to R7,84bn from R7,92bn in December. But they were 38% higher than in January last year.

SA Foreign Trade Organisation (Safto) economist Linda Smith speculated that an apparent drop in oil imports could be due to greater transparency which had caused them to be transferred from the unclassified sector to minerals.

"This explains the increase in this (the minerals) category," she commented.

"The reason given for this reclassification was that oil imports need no longer be secret.

"One wonders when category 19 will reappear — the category dealing with trade in arms.

"It is peculiar that the oil trade is no longer secret but arms are still unclassified — particularly given the fact that extensive coverage is given to events such as South Africa's bid to sell Rooivalk helicopters to the UK."

Economists said they were happy with the January trade figures. But Nick Barnardt, economist with stockbroking firm Ed Hern, Rudolph, said he expected imports to continue to grow while the outlook did not look good for exports of farm produce by volume and of gold, diamonds and platinum by value.

"These account for 50% of exports. This means we cannot expect exports to continue to grow this year."

Pointing out that "invisibles" such as freight and interest costs account for R1,5bn of foreign exchange a month, Barnardt said that if the trade surplus remained R1bn a month the deficit on the current account would be only R6bn.

If, however, the surplus fell to R0,5bn "the deficit will rise to R12bn and we shall no longer be able to refer to it as 'only'".

Southern Life economist Sandra Gordon said records showed the trade surplus was normally smaller in January.

"The month on month figures for exports look disappointing but they are significantly higher than those for January last year. It looks as if we are getting the benefit of higher negotiated contract prices."

Linda Smith said high import levels could be expected to continue this year. But they would probably not reach the level of 1994 which pushed the balance of payments (BoP) into a deficit late last year.

# Upswing saddled SA with deficit

74A

MUNGO SOGGOT

THERE was a R2,1bn deficit on the current account of the balance of payments (BoP) last year as the economic recovery saddled SA with a heavy import bill, the Reserve Bank said in its latest Quarterly Bulletin.

The Bank said the swing into deficit — the first since 1984 — from 1993's R5,8bn surplus reflected the turnaround in the business cycle as local manufacturers stocked up with imported machinery, electrical equipment and transport goods. There had been only moderate increases in intermediate and consumer goods imports.

BD 15/3/95

It said the current account had also been hit by an 11% drop in the volume of net gold exports, caused mainly by a further reduction in the ore grade. "Not only the quality, but also the quantity of gold-bearing ore milled, decreased sharply."

The value of imports had risen 27% compared to a 17,5% exports increase figure.

The deficit had widened to R7bn in the fourth quarter, from R5,4bn in the third quarter.

A breakdown of the imports showed that most of the growth was in a hefty rise of capital equipment imports to feed large investment projects — like Alusaf and Columbus Stainless Steel — and other investment projects.

The prices of imported goods had increased 8,5% — which brought the rise in value of imports to 27% — because of the combination of a weak rand and increases in the producer prices of SA's trading partners.

SA'e export volumes had picked up 5%. Although the increase was lower than the estimated increase in the volume of world trade, it was a "remarkable performance" considering the disruptions to domestic production, the Bank said.

Meanwhile, the capital account of the BoP benefited from a R5,2bn net inflow of capital last year, compared with a R15bn net outflow the previous year. These inflows had been achieved despite R5,9bn in debt obligations due last year.

There had been a R1,4bn net inflow of long-term capital last year, the bulletin said. Most of this had come in in the fourth quarter. The long-term inflows had come in mainly because of "further normalisation of international financial relations".

# European billion is on the brink

74A

**BY JOHN FRASER**
STAR FOREIGN SERVICE

**Brussels** — European Union Finance Ministers yesterday gave the all-clear for loans to SA worth R1,2-billion.

The loans will be granted by the European Investment Bank, and yesterday's decision means they will be guaranteed by the EU. They will be paid out over the next two years.

The loans will go on infrastructure in road, rail, electricity and energy projects.

However, the loans will not come on stream until the European Parliament has given its opinion on the move.

European MPs do not oppose the loans themselves, but want to have more say over monitoring them.

If, as is expected, the European Parliament does express its support next month, the first loans can be made very soon afterwards.

Star 21/3/95

# BoP deficit 'could hit R6 billion' in '95

(74A)

ARG 23/3/95

**ALIDE DASNOIS**
**Deputy Business Editor**

THE deficit on the current account of the balance of payments is likely to swell to R6 billion or R7 billion this year, from R2,1 billion in 1994, says Sanlam in its latest Economic Survey.

The gap between expenditure and production, which turned the current account surplus into a deficit last year, will widen, Sanlam says.

This trend will be strengthened by a reduction in agricultural exports because of weather conditions.

In addition, the abolition of the import surcharge in this month's budget could stimulate imports.

But Sanlam expects the capital account and the foreign reserves to improve as foreigners focus on South Africa as a field for investment — "even more so now that the financial rand has been abolished".

The growing current account deficit, higher domestic demand for credit and rising international short-term interest rates will pave the way for another increase in the bank rate of one percent this year, the survey says.

Long term rates could come down, in line with trends in the United States.

Sanlam economists are forecasting an average inflation rate of 10 percent this year compared to nine percent in 1994.

Higher excise duties on liquor and tobacco and higher fuel prices will add up to 0,5 percent points to the inflation rate, at the same time as housing costs are rising because of the rise in the bond rate.

But the abolition of the import surcharge should reduce the price of imported goods.

Production is expected to rise faster than the real wage bill, leading to a slower rise in unit labour costs.

Coupled with strict monetary policy, this should help to keep inflation under control, Sanlam says.

"We do not believe that the abolition of the financial rand will have a significant effect on the external value of the rand — and therefore on the inflation rate."

Sanlam expects a real growth rate of about three percent this year (2,3 percent in 1994).

# SA is among the top five debtors to the UN

## □ *Debate about paying apartheid's backlog*

ARG 6/4/95 (74A)

**The Argus Foreign Service**

NEW YORK. — South Africa has the unenviable distinction of being among the top five debtor countries to the United Nations after the United States, Russia, Ukraine and Japan.

Contrary to the impression left by earlier UN statements that South Africa's dues accumulated during 20 years in the political wilderness had been forgiven, a total debt of $112 million remains.

Officials said this was the subject of intense negotiations between South Africa and the UN and that the outcome remained uncertain.

President Nelson Mandela and his advisers appear to have differing opinions about South Africa's UN obligations.

Before he took office, Mr Mandela said that if the UN so demanded, South Africa ought to smile and pay up.

But Foreign Minister Alfred Nzo, during a UN visit, took the contrary view that the government was not obliged to pay dues accumulated by the former administration whose representatives were ejected from the general assembly in 1974.

Countering Mr Nzo are those, including South Africans, who emphasise that the republic was never totally excluded from the UN, but retained membership and continued to enjoy all the privileges of membership, including access to confidential documents throughout the two decades that it was barred only from participation in general assembly business.

Confusion about the true state of affairs seems to derive from a decision by the general assembly, on South Africa's return last uear, to waive a rule that would have cost the republic its voting rights.

Under that rule, any state in arrears the equivalent of two years or more loses its vote.

Allowing South Africa to resume voting, regardless of its large debt, was interpreted in some quarters as forgiveness of the obligation.

But the latest "status of contributions" report makes fairly plain that this is not the case. At least, not for now.

# Dollar's fall could affect balance of payments

MUNGO SOGGOT

THE rand's relative strength against the free-falling dollar could dent SA's export performance, while its losses against third currencies could inflate its import bill, economists said at the weekend. (74A)

They said the pattern would have a stronger effect on imports than on exports. Most of SA's exports were dollar denominated, while a large portion of its imports were from Europe and Japan. BD 10/4/95

If sustained, the currency turmoil in which the dollar has plunged against the yen and the Deutschmark, could have an impact on SA's balance of payments (BoP).

One said the exchange rate pattern was unlikely to have affected the BoP so far, although it could have been a small factor behind February's low trade balance of R316m.

On Friday, the dollar fell further against the yen after the release of US unemployment data which pointed to a slowdown in the economy, suggestingthat the Federal Reserve would not come to the rescue with another interest rate hike.

"The market expects the Federal Reserve to be on hold on rates at least until the May 23 Federal Open Market Committee meeting and perhaps beyond," an analyst told Reuter, which reported that analysts expected a continued decline for the dollar.

Economists estimated that about 80% of SA's exports were dollar denominated, a large chunk of which were "unclassified" gold exports.

According to last year's Customs and Excise figures, almost 50% of imports came from Europe, 24% from Asia — mostly Japan — while 16% came from the US. However, a portion of Asian imports were dollar denominated, an economist said.

He said the rand had depreciated about 3% against the dollar over the past year, by about 25% against both the yen and the Deutschmark and by about 10% to the pound.

*Asian growth also hit by yen appreciation*

# Surging currencies push up SA debt

Star 10/4/95 (74A)

**BY NEIL BEHRMANN**

**London** — South Africa's foreign debt has increased in recent months because of exposure to surging European and Japanese currencies, estimate bankers here.

According to the Reserve bank, South Africa's foreign debt was R57-billion, or the equivilant of £17-billion at the end of 1993. Yet a large proportion of sovereign, para-statal and private sector corporate debt is denominated in Deutsche marks, Swiss francs, sterling and yen. Since the rand has slumped against those currencies, SA's total foreign debt level has increased even though some of the loans have been repaid, estimate bankers.

Here's an example on how foreign currency appreciation hurts the borrower. Assume that a company borrowed DM20-million in 1993, which was then equivilant to R40-million. The loan appeared to be attractive since interest rates were lower.

The loan still stands at DM20-million, on the books, yet since the mark is now much higher, the repayment cost of that loan rises 30% to R52-million. Thus an extra R12-million is required to repay the loan.

In the meantime, the interest charges to be repayed in local currencies have also surged. Of course, sovereign and corporate borrowers tend to hedge against currency losses on their loans by selling rands forward against Deutsche marks, Swiss francs and yen through swaps and other derivatives. Yet this hedging is expensive and sometimes the loans have been left uncovered.

Moreover, the Reserve Bank subsidised forward foreign exchange cover for Eskom and other para-statals, so ultimately the taxpayer will be meeting the losses, say bankers here.

South Africa is just one example of the impact of foreign exchange turmoil.

Large yen liabilities could curb growth of several Asian nations, according to Merrill Lynch.

"This is a most unwelcome surprise to Asian borrowers whose exports are largely denominated in dollars," says William Sterling, New York based manager of International Economics at Merrill Lynch.

As a result of the yen appreciation the debt burden of nations which have large yen borrowings have increased considerably, says Merrill Lynch.

Yen-denominated debt as a percentage of gross national product, was according to the World Bank around 28% for Indonesia, about 23% for the Phillipines, about 20% for Thailand, around 14% for Malaysia, 8% for Pakistan and about 5% for China, India and Korea.

Borrowers were taken by surprise by the extent of the yen's appreciation during the past few months, contends Merrill Lynch. A year ago, for example, the most bearish of bank currency forecasters were predicting dollar rates of more than Y100, compared with present levels of Y84. So yen borrowings might not have been hedged sufficiently.

Large yen loan commitments could thus explain dealer reports of large scale sales of dollars by Asian central banks. These banks have not confirmed these sales. Yet dealers say that they played a major role in causing the US currency to slump against the yen. Meanwhile Japanese institutions and other investors have lost an estimated £470-billion (R1700-bn) on investments in foreign bonds and equities since the mid-eighties following the collapse of currencies against the yen.

At a gathering of European Union finance ministers in Versailles this weekend, the French delegation in particular complained about the dangers of currency upheaval.

DEBT TRAP

FEATURE

# The markets rate the big spenders

(744)

FM 14/4/95

**Market perceptions** of economies caught in a debt trap are shaped not by the size of the problem but by what is being done to remedy it. That can be seen in the different ratings accorded by the markets to high-debt countries such as Canada, Sweden, Italy and Belgium.

Belgium has the worst burden — the ratio of its gross debt to GDP is 142% — and has been the highest among the leading OECD member states for well over a decade. But Belgium has a primary budget surplus, before debt interest, which has run at 3%-4% of GDP since 1989.

So Belgium is turning the corner.

In its last *Economic Outlook*, which warned of the dangers of the debt mountain of most industrialised nations, the OECD noted that Belgium's debt:GDP ratio was "one of the few" which will decline over the coming two years — a modest fall to 137% by 1996.

It compares unfavourably with countries such as Ireland, which has run its ratio down from 116% to 84% this year, or New Zealand, the only OECD member to run an overall budget surplus, where it has fallen from 53% to 42% and is targeting 30% in the short term.

However, Belgium's performance has been enough for investors. The currency has remained rock steady, anchored to the D-mark. True, since the start of the great bond bear market last year, Belgian government long-term bond yields have risen 100 basis points to 7,7%; but the premium over German bonds has narrowed from 110 to around 80 basis points.

**Net interest costs**

And the cost of net interest payments, nearly 10% of GDP three years ago, is forecast to fall to 8% This will reduce the overall budget deficit to 4% in 1996.

Alarm about Canada has also eased from last year, when its long bonds were driven down, to offer a 200 basis point yield premium over US Treasuries. The yield spread is now 140 points, only marginally higher than at the start of 1994.

And at C$1,40 to the US$, the currency has rallied, to cut its depreciation to about 4,5%.

Canada is expected to stabilise its debt:GDP ratio at around 96% — up from 65% in a decade. Deficits are expected to fall from 6,2% of GDP to 3,5% next year, on OECD projections. With debt service absorbing 4,5% of output, Canada will be generating a positive primary surplus.

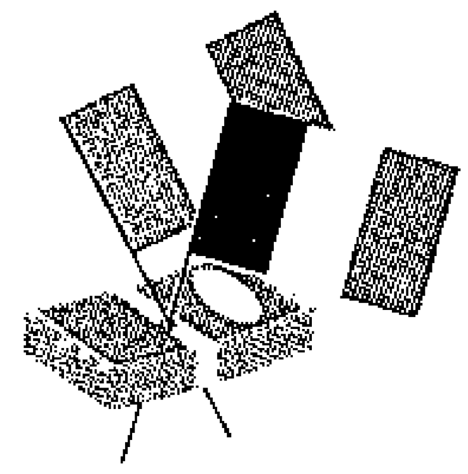
Fiscal discipline has become the name of the game with the emphasis on spending. At provincial level, Alberta has passed a law requiring a balanced budget from next year and liquidation of debt within 25 years.

Manitoba has proposed a performance fine be levied on Cabinet Ministers: a 20% pay cut if it is in the red and a further 40% if the red ink is repeated the next year. Any big tax increases will have to be put to a referendum if the measures go through.

By contrast, Sweden has yet to establish credibility for the planned squeeze to deal with a debt:GDP ratio which has more than doubled in five years and, on OECD estimates, will keep rising to more than 110% in 1996.

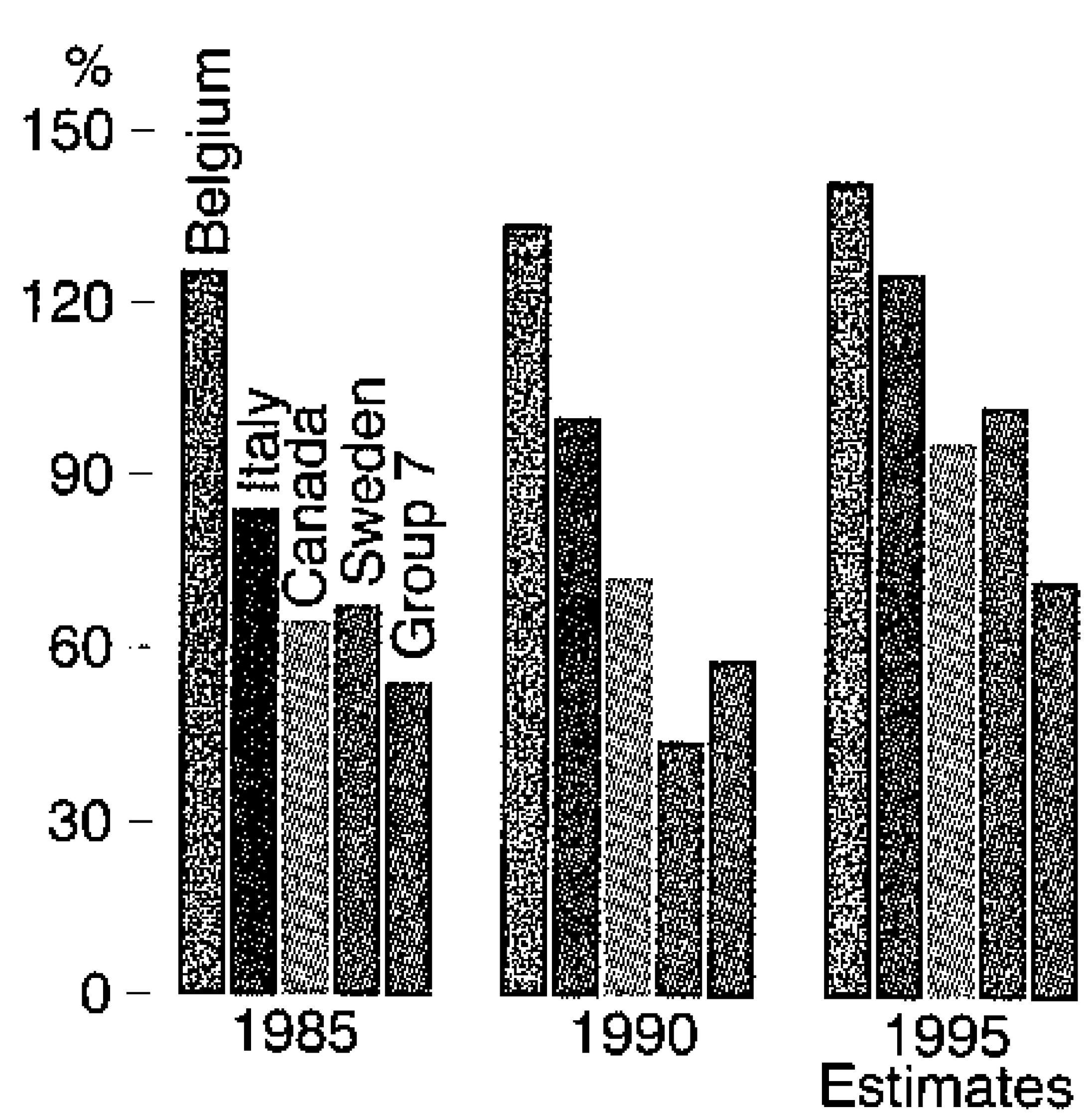
Last week, the minority Social Democrat government won parliamentary support for unspecified spending cuts aimed at consolidating the debt at 96% of GDP in 1998.

## THE BIG SPENDERS



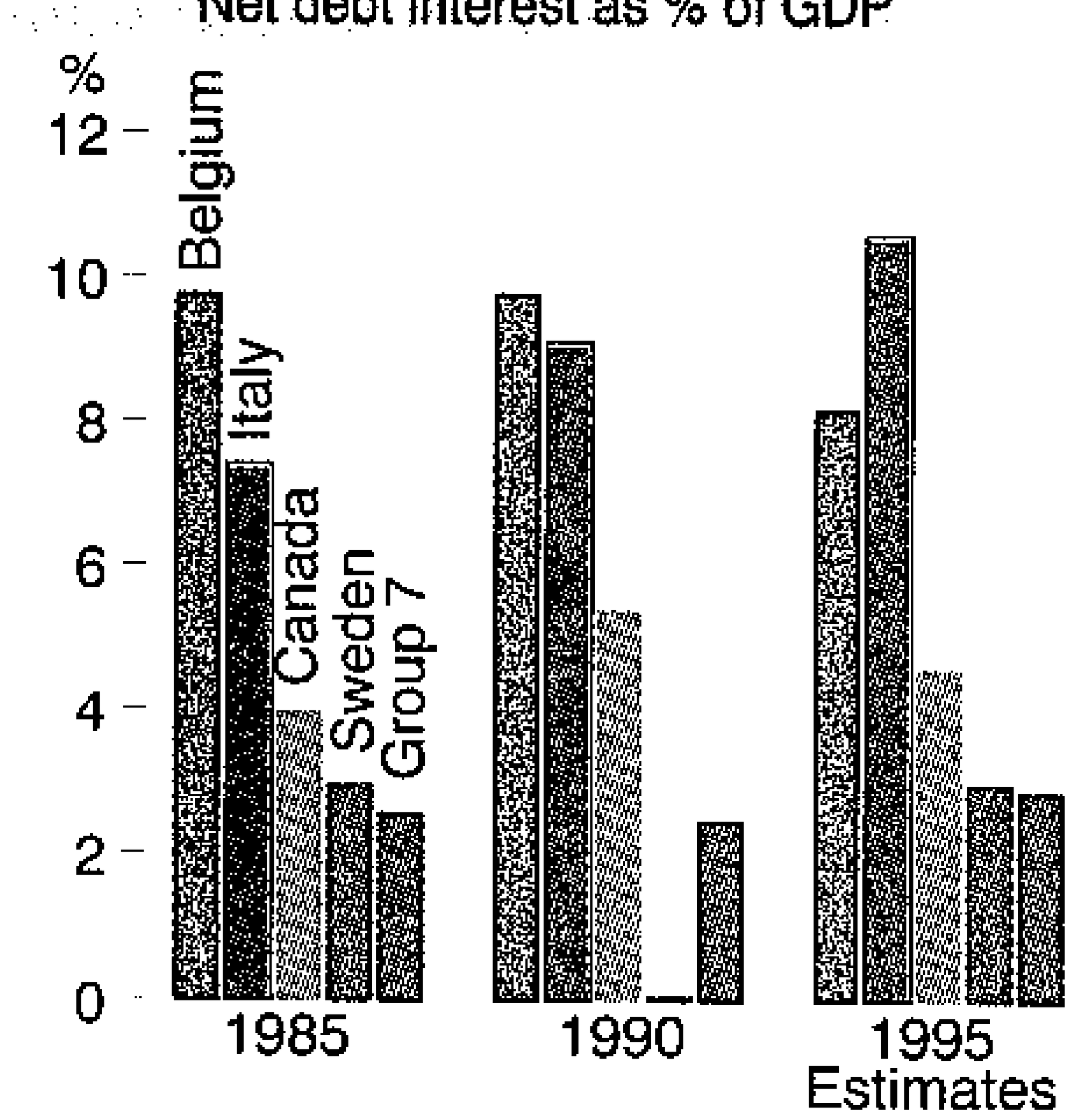
DEBTS MOUNTING

General government gross debt as % of GDP




EATING RESOURCES

Net debt interest as % of GDP




Meanwhile, net debt service costs will keep climbing. From just 0,1% of GDP in 1990, the level is projected at 3% this year and 4,5% next. Though the government deficit should grind down slowly, from 13,5% of GDP in 1993 to 9,5%, that will still leave a negative primary balance of 5% in spite of stronger growth (and tax revenues).

This will inexorably add to gross liabilities. Hence there was no sign in the financial market of confidence returning. The yield premium over German bonds, which was 170 basis points in early 1994, widened marginally to 430 basis points, with 10-year government issues offering 11,2%.

The Skrona, which has fallen 8% in D-marks, continued to wobble.

Italy is regarded as the real basket case. Its debt service is close to 11% of GDP. Gross liabilities are 126% of output this year, ignoring unfunded pensions which would increase liabilities to more than 220% of GDP.

Rising interest rates could do the same. In the past 15 months, the benchmark Italian Treasury yield has shot up from 7,7% to 12,9%, accompanying a 25% devaluation of the lira.

In step, the yield premium over German bonds has almost trebled from 210 basis points to 600. While the government is aiming at a pre-interest surplus of 2% of GDP this year — double 1994's level — Italy has scant chance of reducing debt when it has to borrow 8% of GDP to meet interest.

According to the OECD, the effect of a 1% rise in interest rates — assuming it applied to all debt — is to increase the deficit by 0,4%. For Sweden, a similar calculation swells the deficit by 1,2%.

Highlighting the debt trap, the OECD pointed out the potential spiral impact — as the gross liabilities of all members swell from 68% of GDP to 75% by the end of next year.

The danger is that borrowings could sustain high real long-term interest rates and dampen economic activity, worsening fiscal balances.

As it is, the big debtors would have to cut expenditure or raise revenues by up to 1,5% of GDP each year to hold debt steady.

If growth slips half a point below the levelling off scenario's posited average of 2,5%-3%, the consequences would be drastic. Debt ratios would balloon to more than 160% in Belgium, 150% in Italy and nearly 120% in Sweden and Canada.

As long as these ratios remain vulnerable, the markets will remain wary. Only genuine attempts to cut debt levels will restore previous ratings.

Cabinet for review.

A shake-up in both medical insurance and medical aid schemes, which will need to concentrate in future on benefits which fall outside the primary care category, seems inevitable.

Barry Crookes, director of Old Mutual Actuaries and Consultants, says campaign slogans may have raised false expectations. It's unlikely a National Health Scheme will provide all benefits — such as scans — in the casual way they are prescribed for medical aid members. He argues many expensive procedures are an aid to diagnosis, but do little more than support primary assessments.

He anticipates a forced contribution from the formally employed to finance primary care for all, including the informally employed and the unemployed. "As a result, medical schemes are expected to move away from financing primary health care, and their future focus is likely to be on more insurable risks. Medical insurance and medical schemes will be able to adopt a more long-term focus."

He argues employers should now identify their total expenditure on employee health. This includes not only medical aid contributions, but occupational health facilities, Aids awareness programmes, TB screening, executive health screening, recreation facilities or employee advisory programmes to deal with substance abuse or emotional problems."

With all the costs identified, including some hidden inside manufacturing costs, a total health plan for all employees can be reached — but excluding primary care which will be available to all — "though it's an illusion to believe there is any such thing as free health care." ■

**TONY VALSAMAKIS** **IN MY OPINION**

# Changing face of insurance

**Tony Valsamakis is deputy chairman of Guardrisk, a specialist risk financing company serving the corporate sector.**

**If you're** into paradoxes, you'll love this one. A US survey shows that the part insurance plays in the total cost of corporate risk (what corporations pay to manage their exposure) fell from 65,3% in 1977 to 52,6% in 1980. It is expected to fall to about 25% in the Nineties.

So, if companies are using insurance less and less, then the risk insurers are shouldering might reasonably be expected to be decreasing too, right? Wrong.

According to consultancy KPMG, prior to mid-1988, the insurance industry had never experienced losses from a single event of more than US$1bn. Since then, there have been 14. Hurricane Andrew, for example, cost $15bn in insured damage.

Almost half of all the catastrophe-related losses of the past 40 years were paid out since 1990. Man-made risk is getting just as bad. The terrorist bombings of the World Trade Centre and the City of London a few years ago cost $1,25bn in insured damage. The cost of the Barings disaster is still being computed. The hijackings of trucks in SA reached R500m in 1994 and fraud exceeded R1bn.

There's the paradox in a nutshell: the extent to which major corporations need to insure themselves against risk is greater than it has ever been, yet the ability of insurance companies to shoulder this risk seems less than it has ever been.

So either companies are not insuring themselves adequately and are sitting on a risk time-bomb; or companies are "insuring" themselves adequately, but are not using the insurance sector to do it. Actually, it's a bit of both.

Companies *are* spending more and more on covering their risk, but they're doing it in smarter ways. Through a more strategic approach to risk management, they are tailor-making solutions to their various exposures. This helps them determine how much to spend on preventative measures, how much to set aside for predictable losses (self-insurance) and how much to spend on traditional insurance for unpredictable and catastrophic losses.

And when they have to insure, they are increasingly setting up their own insurance operations (known as "captives") and channelling the premiums through them. In 1974, there were only about 200 captives worldwide; there are over 3 200 today. Over a third of all money American firms spent on risk financing in 1993 went into captives or other self-insurance vehicles. More than 30 SA corporations have captives, some of them offshore.

The bad news is that only a small number of companies view risk in this strategic manner. Most think they're covered once they've paid their traditional insurance premiums. Hence the saying that insurance is like a hospital gown: you think you're covered, but your rear-end may be exposed.

An international rule of thumb is that for every $1 of risk insured by major corporations, at least another $10 of indirect and consequential losses goes uninsured.

Local research on disaster recovery shows that fewer than 10% of SA companies are adequately prepared to continue business operations in the event of major disruption from fire, theft, flood, fraud or loss of computer data. The consequences can be fatal.

Loughborough University in the UK has established that 80% of companies which had experienced a computer disaster, and which had not made contingency plans, were bankrupt within 18 months. It's a salutary reminder to all directors that bottom-line profits are a function of both income and costs — and uncovered risk is probably the greatest cost there is.

Where does this leave the insurance industry? Valiantly trying to meet the challenge, but not always succeeding.

The nature of today's risks, their inherent unpredictability, and the huge amount of capital needed to cover them, are formidable obstacles. Insurance companies have increasingly refused to provide adequate cover for certain classes of pollution, terrorism, product liability or employers' liability. Lack of capital is another obstacle. The market value of all property assets in the US is about $13 trillion; yet the total US insurance industry has $180bn of available capital. A similar imbalance exists in SA.

The only viable solution is for the insurance industry to tap the capital markets, where billions of dollars are invested every day in tradable instruments, from shares and bonds to derivatives and forwards. Until insurance policies — essentially, pieces of paper locked in corporate drawers — become more like tradeable instruments, reflecting changing risk exposure in money terms, they will not be able to access big money.

This explains why the capital markets and the insurance industry are moving closer together. Already, several billion dollars of insurance derivatives trade daily on exchanges in Chicago and reinsurers are increasingly hedging their risk exposures with such instruments.

Is this the end of the insurance industry as we know it? Will it go the way of the buggy whip? Video didn't kill off cinema; availability of credit outside the banking sector didn't kill banking. Like cinema and banking, insurance will have to adapt — often by embracing the very factors "threatening" its livelihood. Already, certain SA insurance companies have formed specialist subsidiaries to handle strategic risk.

*The Economist,* concluding a survey of insurance in 1994, says insurers must "develop the know-how to profit from derivatives and other innovative risk management techniques." Those who do not "will find themselves victims of disintermediation, as corporate clients tap the capital markets directly to pay for their losses."

# Trade deficit could force SA to IMF

(74A)

**GRETA STEYN**

SA's first trade deficit in years had heightened the possibility that the country would be forced to turn to the IMF for finance before the end of the year, economists said yesterday.

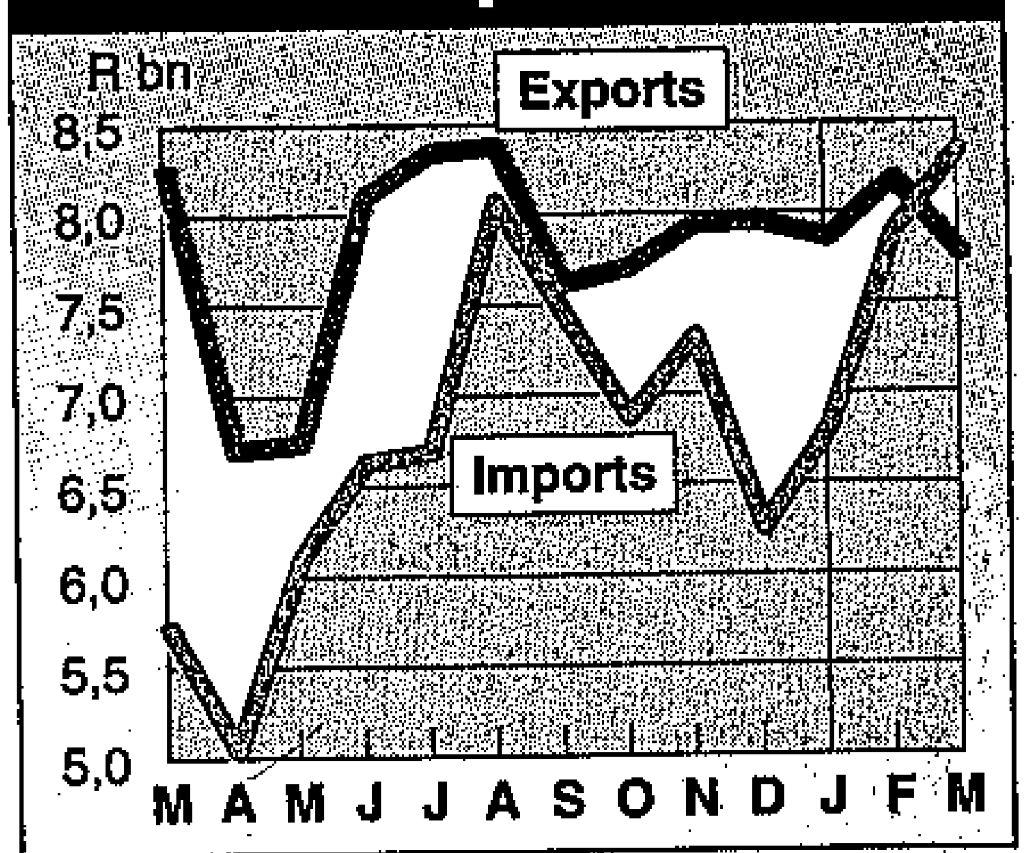
Finance Minister Chris Liebenberg, commenting on the trade deficit, said it was possible SA might approach the IMF in September. But at the moment the current account deficit was covered by healthy capital inflows, and there was no cause for concern.

"The current account deficit is to a large extent driven by fixed investment spending, which we need for sustainable economic growth," Liebenberg said.

Economists said finance from the IMF would come with strings attached, and could be avoided only if the country achieved massive capital inflows. Interest rates might have to rise to attract foreign capital and to take the demand for imports off the boil. BD 28/4/95

The economic upswing has fuelled SA's appetite for imports, helping to push the trade balance into a deficit of R570m in March from a small surplus of R316m in February.

**Trade surplus/deficit**




Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Exports fell as international demand for SA's major exports failed to live up to expectations. Customs and excise figures showed exports were down about 5% to R7,76bn while imports were up almost 6% to R8,33bn.

☐ To Page 2

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## Trade deficit

(74A) BD 28/4/95

☐ From Page 1

A major reason for the high import bill has been huge imports of machinery because of fixed investment spending. In the first quarter of this year, machinery imports rose almost 29% in rand terms from the same period a year ago.

Economists had predicted that machinery imports would start slowing as the demand from large projects such as Alusaf and Columbus came to an end.

But machinery imports rose to R2,59bn in March from R2,3bn in February and R2,23bn in January.

The figures also show huge demand for vehicles and transport equipment — the increase in the first quarter was 67% compared with the same period last year.

An economist said it was possible that the imports had been stepped up in the first quarter in anticipation of the rand collapsing after the abolition of the financial rand, and that demand could return to more manageable levels.

SA Foreign Trade Organisation economist Linda Smith noted that SA's major exports performed poorly. "This emphasises the need for SA to broaden the export base to lower the country's vulnerability to changes in the market conditions of just a few products."

Diamond exports were remarkably low at only R199m (from R1,6bn in February). Unclassified exports — mainly gold — rose by 8% off a low base in February. Smith said the trend in gold had been down since July last year.

Base metal exports rose less than 4%, which Smith said was disappointing as there had been an improvement in base metal prices.

WESTERN CAPE EXPORTER OF THE YEAR — WEEKEND Argus

74A

# SA trade balance takes a knock

ARGT 29/4/95

SOUTH Africa's trade balance moved into the red in March for the first time since the early 1980s, as exports fell five percent and imports rose about six percent.

The R570 million deficit illustrates just how dependent the economy still is on primary product exports, points out Safto economist Linda Smith.

Sluggish exports of diamonds, gold and base metals in March more than offset slight improvements in other categories.

The poor March export performance, she says, is partly due to a lack of supplies for export, as domestic demand has been mopping up most output.

But exporters are also complaining of a lack of commitment to export markets on the part of South African manufacturers.

■ Time is running out to enter the Weekend Argus/Cape Chamber of Commerce & Industry Exporter of the Year Competition, with entries closing on May 12.

The competition is open to any exporter of products drawn from the Western Cape.

A gala dinner is to be held on August 15 to announce the Exporter of the Year, as well as the winners of associated awards for associated trophies for small exporters and the engineering and non-manufacturing sectors.

For entry forms, call Seanne Cousins on ☎ (021) 418 4300.

# BER is bullish on exports

(74A)

ARGT 13/5/95

**ALIDE DASNOIS**
Deputy Business Editor

THE balance of payments should not be a brake on economic growth for the next two years, according to the Stellenbosch Bureau for Economic Research.

In its latest Economic Forecast, the Bureau says export earnings should be boosted by buoyant conditions in the world economy and higher commodity prices. The Bureau is forecasting an average gold price of $389 in 1995 and $402 in 1996, with increases in rand gold earnings of nearly 5 percent this year and nearly 17 percent next year.

Other exports should grow by 9 percent this year, while imports grow 21,5 percent.

But the services account of the balance of payments will benefit from visits to the country by about one million tourists, compared with 600 000 last year.

And net capital inflows — provided there is no deterioration in the political climate — are expected to increase from R5,2 billion in 1994 to R7,6 billion this year and R10,7 billion in 1996, says the Bureau.

Total employment in the economy, which has been falling by 1,5 percent a year on average since 1990, should grow by 1,3 percent this year and 2,1 percent in 1996.

Though inflation is likely to accelerate as bottlenecks appear in the economy, real personal after-tax income is forecast to grow by 1,4 percent in 1995 and 2,4 percent next year.

(741A)

**Africa's crippling burden:** More than a third of Africa's export earnings for 1994 was used to service foreign debt, the African Development Bank has stated. In its 1995 African Development Report, it says debt service was 35,4 percent of exports in 1994, up from 28,8 percent in 1993 and 30,5 percent in 1990.

CT (BR) 24/5/96

# Diamonds, greens tip trade balance

(74A)

Star 31/5/95

■ **BY CLAIRE GEBHARDT**
ECONOMICS EDITOR

South Africa's trade balance surprised analysts with a swing back into a surplus of R305,8-million rand in April after a R571 deficit in March, according to Customs & Excise figures released yesterday.

The improvement in the trade account was a combination of a slight drop in export performance and a significant drop in imports.

SAFTO economist Linda Smith said were it not for an improvement in diamond exports — double March's level but still lower than last year's levels — and a significant improvement in vegetable product exports, the trade balance would probably have been in deficit again in April.

On the export side the fall was attributed to public holidays and labour problems on the mines.

Customs & Excise figures show imports down 20,2% to R6,64-billion from R8,33-billion in March. Exports dropped 10,4% to R6,95-billion from R7,76-billion last month.

On a year-on-year basis, however, exports are up a mere 6,2% year-on-year while imports have surged 33,8%.

Smith said exports of mineral products (mainly coal) were down R345-million, pulp and paper down R240-million and chemicals, base metals and vehicles and components down approximately R100-million each.

The performance of vegetable products was interesting given the problematic agricultural conditions experienced.

"Vegetable product exports usually rise in the middle of the year, but this improvement has come earlier and at a higher level than last year."

At R600-million for the month, vegetable products had jumped to the fourth largest export category from a usual sixth position.

The greatest import decreases had taken place in machinery and transport equipment, where imports fell by R300-million each and mineral products, largely oil, fell by R200-million.

Smith said imports appeared to be returning to the levels seen at the end of last year and January this year.

This was partly due to the upheaval in currency markets which might have caused importers to down-scale their expectations of Economic growth.

Econometrix director Dr Azar Jammine said the latest figures indicated a significant outflow of capital given the combination of a drop in reserves with a surplus on the trade account.

## Reserve Bank

This might have been on negative political perceptions of the row between President Mandela and the IFP.

Market commentators yesterday had forecast earlier that April's trade balance would show a deficit of between R500-million and R3-billion and would force a bank rate hike given recent adverse money supply and inflation figures.

However, Reserve Bank Governor Chris Stals was quoted on Afrikaans radio yesterday as saying he was reluctant to hike the bank rate because some of the negative economic indicators might only be "temporary".

# 'Expect bank rate hike in early June'

■ **BY CLAIRE GEBHARDT**
ECONOMICS EDITOR

A one percentage point hike in the bank rate was likely before mid-June, says the Afrikaanse Handelsinstituut (AHI) in its latest Inflation Barometer.

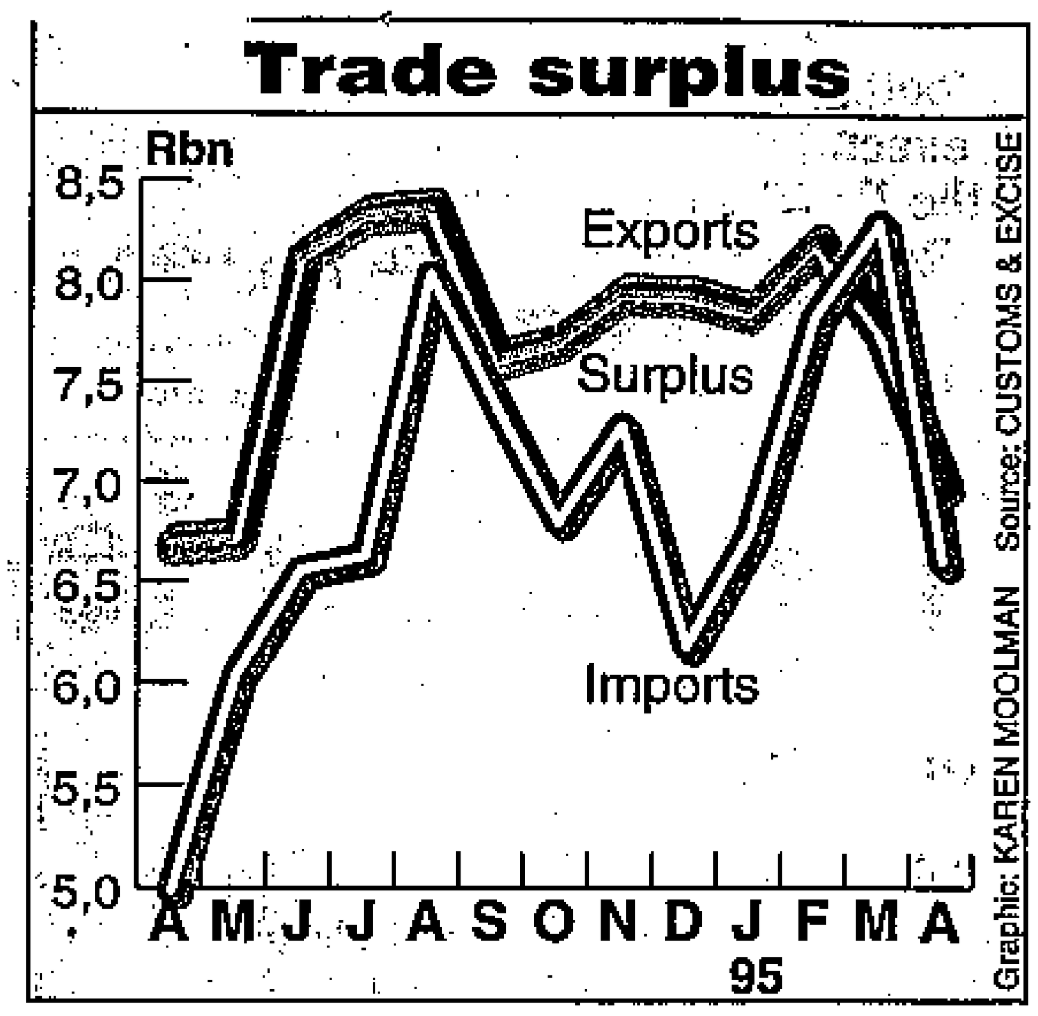
A further bank rate increase could also take place early in the fourth quarter if present conditions prevailed, it said.

The increases would be necessary to restore the balance between spending and production and would have a dampening effect on economic growth.

Inflation rates of between 11 and 12% could be expected as early as the second half of 1995. The AHI said the monetary authorities appeared to be cautious about tightening monetary policy because of the sensitive state of the economic upswing.

A crucial factor in determining the next hike would be the pressure that high imports placed on the balance of payments given the uncertain prospects of capital inflow.

Long term interest rates were also set to rise in the short term from the relatively stable levels of 16,5% to 17%




# Trade balance back in the black

(74A)

**Mungo Soggot**

BD 31/5/95

A SLOWDOWN in key imports pushed SA's trade balance back into the black in April to a R305,7m surplus from a R571m deficit in March, surprising the many pundits who had expected another deficit.

Economists said although it was encouraging that there had not been another deficit, imports were still too high for comfort and SA's export performance remained lame. Nedcor chief economist Dennis Dykes said the figures were "nothing to get too complacent about".

The Customs and Excise figures released yesterday showed imports down 20% at R6,65bn (R8,33bn) and exports down at R6,96bn (R7,76bn).

The news proved a healthy antidote to market speculation that there would be another deficit. Long bond rates fell from recent highs as the figures watered down speculation of an imminent increase in Bank rate. The R150 benchmark closed at 16,98% from a previous close of 17,05%. Analysts said the market would have reacted more strongly had players not been watching SA's match against Romania in the rugby World Cup.

However, economists said the figures gave mixed signals on interest rates. Although they showed the import binge underpinning SA's spending boom had calmed — which would take pressure off rates — they also implied net capital outflows of about R3bn during April.

SA foreign trade organisation economist Linda Smith said there had been falls in all import categories bar jewellery. The

Continued on Page 2

# Trade balance

(74A)
BD 31/5/95

**Continued from Page 1**

largest had been in machinery and transport, which each fell R300m, and mineral products (R200m). The chemicals, plastics and textiles categories had also recorded significant falls.

Economists said the slowdown in imports could mean the surge in imports in February and March had been caused by importers fearing a collapse in the rand after abolition of the financial rand.

Transnet economist Mike Schussler said import volumes were up 26% on last year's after being up 44% in January. Meat and animal product imports were up 207,2%, reflecting the drought and a cut in import tariffs in terms of GATT.

Smith said that had it not been for a good performance in diamond and vegetable exports there would probably have been another deficit. The fall in exports was not surprising because of the number of public holidays in the month and labour problems on mines, which affected gold exports. The mineral products category, which mainly included coal, was down R345m. Pulp and paper exports fell R240m, while chemicals, base metals and vehicles each fell about R100m. One economist said SA could probably attract sufficient capital inflows to nourish a deficit on the current account of the balance of payments for the year of about R8bn to R9bn.

# Trade balance in R305,8m surplus

CT(BR) 31/5/95 (74A)

By Claire Gebhardt

Economics Editor

South Africa's trade balance surprised analysts with a swing back into a surplus of R305,8 million in April after a R571 million deficit in March, according to Customs & Excise figures released yesterday.

The improvement in the trade account was a combination of a slight drop in export performance and a significant drop in imports.

Linda Smith, a South African Foreign Trade Organisation economist, said that were it not for an improvement in diamond exports — double March's level but lower than last year's — and a significant improvement in vegetable product exports, the trade balance for April would probably have been in deficit again.

On the export side, the fall was attributed to public holidays and labour problems on the mines.

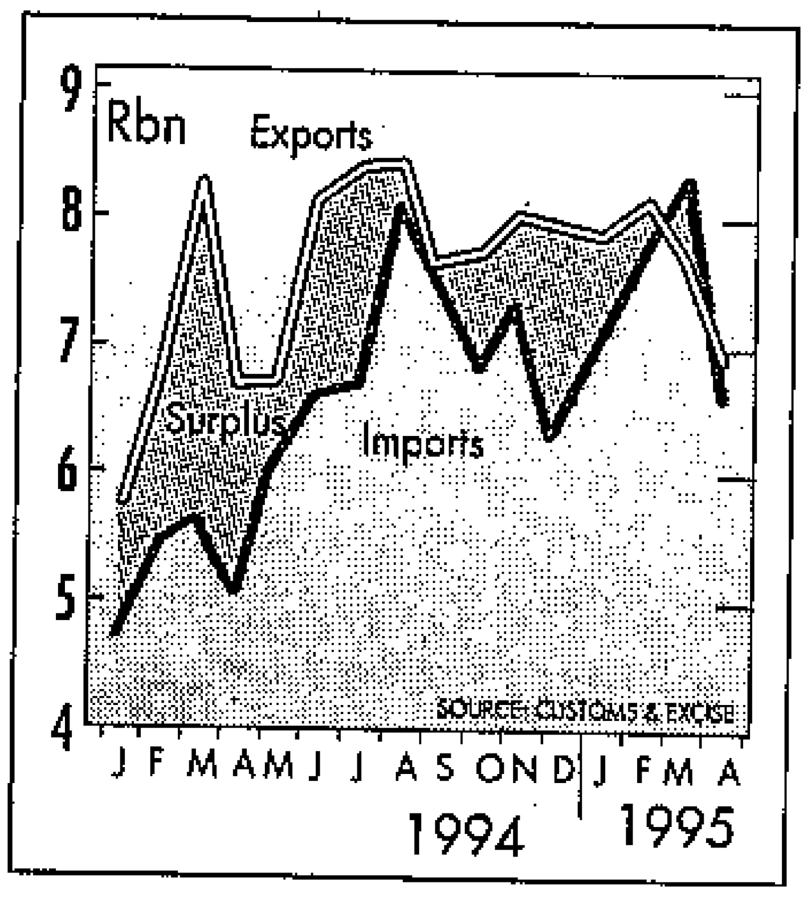
Customs & Excise figures show imports down 20,2 percent in the month to R6,64 billion from R8,33 billion in March.

Exports dropped 10,4 percent to R6,95 billion from R7,76 billion last month. On a year-on-year basis, however, exports are up a mere 6,2 percent year-on-year, while imports have surged 33,8 percent.

Smith said exports of mineral products (mainly coal) were down R345 million, pulp and paper down R240 million and chemicals, base metals and vehicles and components down approximately R100 million each.

The performance of vegetable products was interesting, given the problems in agricultural conditions. "Vegetable product exports usually rise in the middle of the year, but this improvement has come earlier and at a higher level than last year," Smith said.

**Trade surplus**

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However, Reserve Bank governor, Chris Stals, said yesterday he was reluctant to raise the Bank rate because some of the negative economic indicators might only be "temporary".

# Flood of trade deals with South Korea

John Dludlu BD 2/6/95 (74A)

THE SA economy stood to benefit by $781m through 19 trade contracts with South Korea, visiting South Korean Deputy Trade and Industry Minister Un-Suh Park said last night.

He told a media briefing in Johannesburg at the conclusion of his week-long mission to SA that most of these deals had already been signed, with the balance to be wrapped up in the near future.

The deals included a $133m investment in two housing projects by Koreans. "SA exports worth $70m to South Korea and South Korean exports of R31m to SA were contracted yesterday (Wednesday)."

The deals would see Korean multinationals sourcing a range of SA commmodidies, including steel, ferrochrome and sugar.

The two governments had agreed to sign the double taxation agreement to prevent double taxation of corporate and personal income, and an investment protection agreement.

Korea's agency for small business had agreed to co-operate with the SA trade and industry ministry in information exchange on prospective joint ventures and technological transfers, Park said.

Park told Trade and Industry Minister Trevor Manuel the two governments should co-operate to increase their trade to $5bn, from the current $1,1bn, over the next five years.

According to Korean diplomats, SA enjoyed a trade surplus with Korea, with $740m worth of SA products sold in Korea last year.

Park said there was a long way to go on direct investments, however.

Korean investments in SA accounted for a "negligible" $6bn, because of the 15-year absence which followed sanctions.

He told an SA Chamber of Business function that wages in SA were surprisingly high with SA workers getting 10 times more than their counterparts in Asia.

Investment packages offered by the SA government were poor.

"At least we expect a five-year tax holiday as an inducement to investors," he said.

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# Deficit forecasts now R8bn-R12bn

Mungo Soggot

BD 22/6/95

BALLOONING imports and a drab export performance have forced economists to revise upwards their forecasts of this year's current account deficit to between R8bn and R12bn, compared with previous predictions of R4bn to R6bn.

Economists said the gaping deficit meant equally hefty capital inflows were needed to keep the balance of payments neutral. The current account deficit in the first four months of the year was R4bn, they estimated. The Reserve Bank's latest Quarterly Bulletin, out today, will show whether they are right.

Nedcor, which forecast a 1995 current account deficit of R8,1bn in its latest economic review, said net capital inflows had so far more than covered the deficit and should continue to do so.

It said SA's paltry export performance — which along with massive imports delivered a trade deficit in March and kept the surplus low in April — should improve with the help of higher commodity contract prices.

Sanlam senior economist Pieter Calitz said Sanlam was betting on a deficit of between R8,5bn and R9bn this year. (74A)

It was unlikely to be higher as SA's import boom would probably calm during the year as some of the big capital projects like Columbus Stainless Steel, which had been sucking in imports, wound down.

Other economists are predicting an even wider deficit of at least R12bn, arguing that the trade patterns that led to a deficit of R4bn in the first four months of the year are unlikely to change significantly. One argued that the increasingly wide gap between low imported manufacturing inflation and high local manufacturing inflation would kick up SA's import bill as consumers and companies opted for cheaper imports.

Assuming adequate capital inflows, economists are sanguine about the level of the current account deficit as long as the imports are mainly capital goods — which are going towards expanding productivity and therefore growth — and not consumer goods, as this could send SA down the same plughole that swallowed the Mexican economy. Economists said that so far the import boom has been mainly in capital goods.

# Nedcor forecasts drop in payments balance

(74A) Star 22/6/95

■ BY AUDREY D'ANGELO

The current account of the balance of payments is now forecast to record a deficit of R8,1-billion this year, or about 1,6% of GDP, according to Nedcor economists in their latest guide to the economy.

And both exports and imports will continue to rise this year and next, they report.

But the rise in imports appears to be due largely to fixed investment spending. If this continues there is no need for worry, says Dennis Dykes, Nedcor chief economist.

Expenditure of this nature is normally easily financed (matched by capital inflows on the balance of payments) and is of course vital for sustaining and improving economic growth.

However, should the mix of the increase in imports start shifting more noticeably towards consumer goods, it is likely to be viewed with more concern by the monetary authorities.

Nedcor forecasts growth in GDP of 2,9% this year and 4%next year, with gross domestic expenditure rising by 4,2% this year and 4,8% next year.

It also forecasts growth in personal consumption expenditure of 3,1% this year and 3,9% next year, and growth in gross domestic fixed investment of 11,5% this year and 12% next year.

Row brewing over union demand

27/6/95

# Bid to link trade with labour rights

(74A)

**John Dludlu**

A ROW between labour, government and business at the National Economic, Development and Labour Council is brewing over labour's proposal that SA trade agreements be limited to countries that comply with certain labour rights.

Labour wants trade partners to agree to a ban on child labour and all forms of discrimination. The partners should support the right to join unions, to strike and to engage in collective bargaining.

Labour spokesman Lionel October said yesterday labour wanted government to use trade to enhance worker rights. "In terms of our proposals, government should either impose punitive tariffs against countries that fail to uphold four minimum rights or refuse to enter into any trade agreements with them."

The proposal, to be debated in detail at Nedlac's trade and industry chamber meeting next month, required government to withdraw any trade preferences given to countries that did not meet the criteria.

A trade and industry spokesman said four countries — Malaysia, Cuba, Thailand and the Philippines — had refused to sign trade agreements with SA because government had insisted on the inclusion of social clauses in the proposed agreements. The countries had said that they found these points objectionable.

A business source at the trade and industry chamber said business believed that a country's failure to uphold any of these rights should not prevent government from entering into trade accords.

"These are noble ideals already enshrined in our interim constitution. But we feel SA should pursue them more at multilateral forums rather than on a bilateral basis."

Business and government were still studying labour proposals and would table their responses at the next chamber meeting. "To push for these clauses to be included in bilateral trade agreements is like building a new laager of trade protectionism following tariff reduction. You also lose the moral high ground if you force them on countries," the source said.

October also proposed the formation of a tripartite mechanism — consisting of labour, business and government — to enforce trade agreements.

"We've also asked government departments — foreign affairs and trade and industry — to take the issues to the world arena. SA must use its moral stature to mobilise support for them at the World Trade Organisation."

Labour also wants the clauses to be included in agreements involving the Southern Africa Customs Union, Zimbabwe/SA bilateral trade and other future bilateral arrangements.

Although government has apparently taken a stance on social clauses already, there seem to be differences of opinion on whether these should be primary or secondary clauses of trade accords.

Using them as "primary clauses" would prevent government negotiators from concluding agreements with violating nations, while their inclusion as "secondary clauses" would make them mere statements of principle — therefore not functional terms.

BALANCE OF PAYMENTS (74A)

## Tracking events

FM 30/6/95

**Data** on the balance of payments, published in the latest Reserve Bank *Quarterly Bulletin,* shows the influence of positive and negative developments in the economy.

The performance of gold exports is disappointing. After contracting by almost 16% in the fourth quarter of 1994, the volume of net gold exports decreased by a further 3,5% in the first quarter of 1995.

The reasons the Bank cites are:

❑ The further marked reduction in the average grade of ore milled; and

❑ The large number of public holidays as well as continuing labour unrest.

Falling volumes were accompanied by the falling dollar price of the precious metal. "The average fixing price on the London market receded from US$385 to $379 per fine ounce from the fourth to first quarters."

The impact on revenue was cushioned by the depreciation of the rand against the dollar. The fall was from R1 362 to R1 352.

The continuing net inflow of capital was encouraging. Between the crucial turning point in mid-1994, when capital outflows reversed, and March 1995, "no less than (a net) R14,2bn" flowed into SA.

In the first quarter, net inflows of long-term capital amounted to R600m, says the *Bulletin,* despite a R2,2bn repayment on fixed commitments. Repayments related to:

❑ Liabilities, originally caught in the 1985 debt standstill net, now subject to final debt arrangements with foreign creditor banks;

❑ The redemption of debt, affected by the standstill and later converted into long-term loans outside the net; and

❑ Debt guaranteed by agencies of foreign governments.

Direct investment was a relatively insignificant part of the inflows; so there was a sharp increase in outstanding foreign debt, though the level is still comparatively low.

The ratio of interest payments to export proceeds in the first quarter was only 6%. This compares favourably with sub-Saharan Africa, with a ratio of 15,6% expected for 1995, and is close to the 5% projected for Europe & the Middle East.

Net inflows of short-term funds amounted to R4,8bn. Total net capital inflows were R3,4bn. This funded the R2,2bn deficit on the current account (see graphic) and allowed for a R3,4bn change in net gold and foreign reserves.

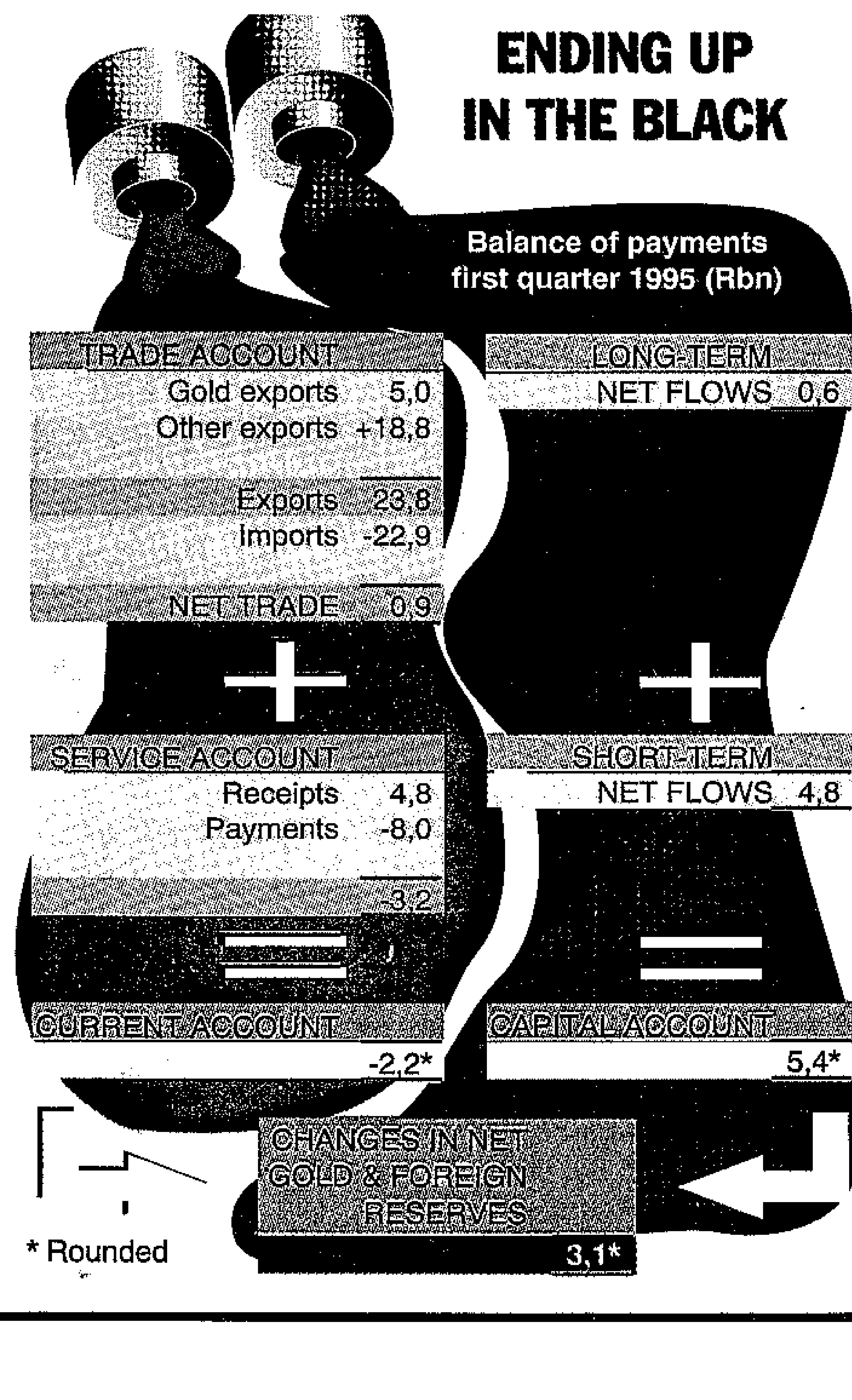
The weakening of the current account, says the *Bulletin,* was due mainly to "the persistent rapid increase in merchandise imports, only partly offset by higher merchandise exports. Both the value of net gold exports and net service & transfer payments to nonresidents remained more or less on the levels attained in the preceding quarter.

"Imports and exports declined sharply in April, leading to a significant improvement in the current account deficit."

In the first quarter, "despite the markedly slower rate of increase in domestic expenditure, the volume of imports rose by 7,5%, due largely to oil imports."

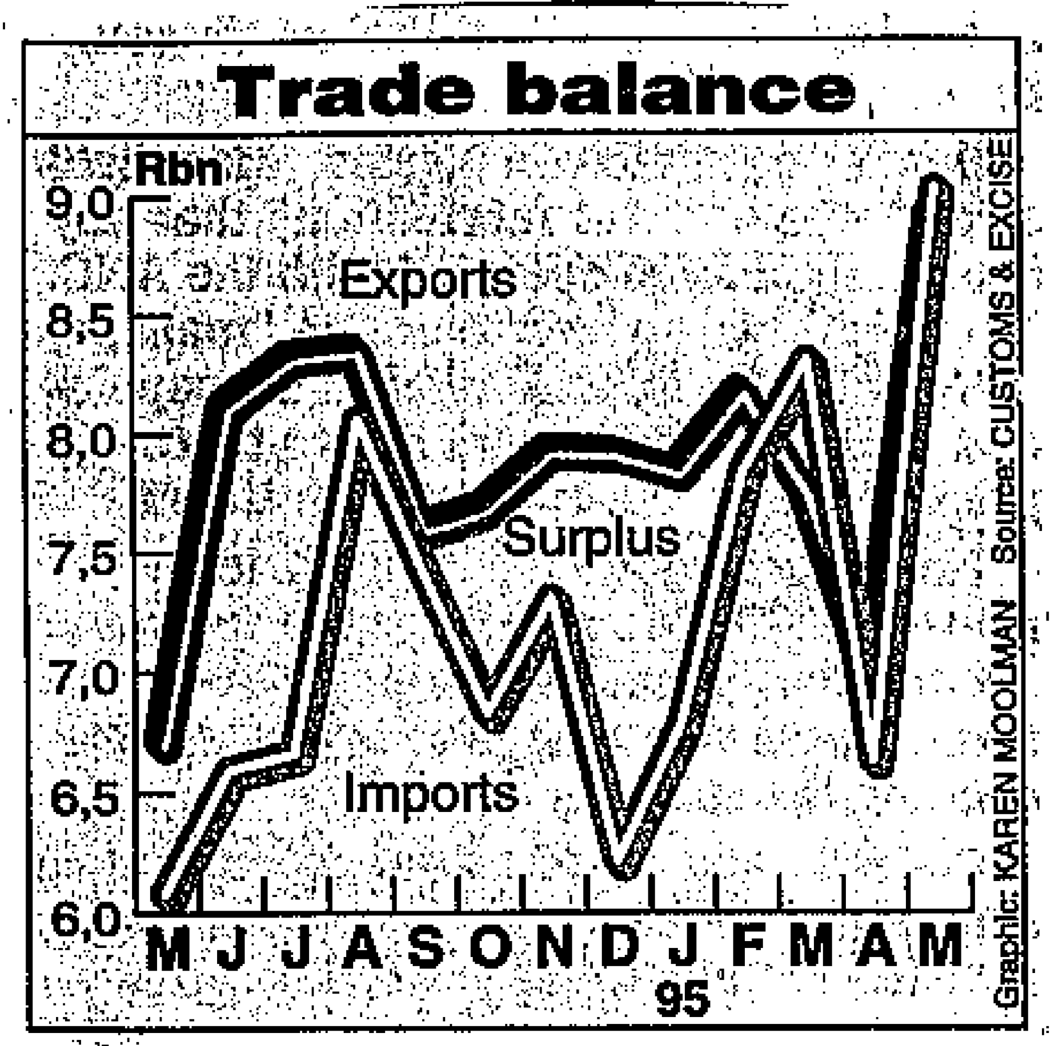
Sharp increases were also recorded in imports of manufactured goods such as chemical products, transport equipment and paper products.

"The rise in imports in the first quarter of 1995, therefore, occurred largely in intermediate goods used in the production process and, to a lesser extent, in the imports of capital goods for investment."




Prices of imported goods rose 3% because of higher international oil prices, moderate rises in the prices of other imported goods and a decline of 1,5% in the average nominal effective exchange rate of the rand between the fourth and first quarters. The substantial rise in the volume of exports (9,5%) was driven mainly by mineral products (coal), machinery & electrical equipment, transport equipment, paper & paper products and diamonds.

Export prices rose only 3% as a result of the moderate increase in international commodity prices. The rand depreciated slightly against the US dollar, the currency in which most exports are priced. ■




# Imports push trade balance into red

Mungo Soggot (74A)

SA SUFFERED its second trade deficit this year in May, when a massive import bill pushed the trade balance R134,78m into the red, customs and excise figures released on Friday showed.

Exports increased to R8,92bn (R6,96bn), but this was not enough to make up for a huge surge in imports to R9,05bn from R6,65bn the previous month.

The deficit follows a R305,7m surplus in April, which came after the March trade deficit of R570m — the first in years.

SA Foreign Trade Organisation economist Linda Smith said it was likely that higher imports and trade deficits would characterise the balance of payments (BoP) this year. However, SA's export performance would be boosted by high-value exports from projects such as Alusaf — which had added significantly to SA's import bill with its expansion programme — coming on line in the second half of the year. Another economist said the third and fourth quarters were seasonally better for trade. BD 3/7/95

Economists said SA could sustain a deficit on the current account of the BoP — the trade balance less net service payments — of more than R10bn this year. The weak trade performance would increase SA's dependence on capital inflows to keep the BoP in shape.

Smith said transport equipment and machinery imports in May — which together made up just less than half the total import bill — had reached their highest levels this year. A sharp rise in oil imports to more

Continued on Page 2

# Trade deficit (74A) BD 3/7/95

Continued from Page 1

than double the previous month's level had also inflated the May import tab.

Standard Bank's economics division said although a few large import categories had underpinned the surge in imports, "a broad-based acceleration of imports, in line with continuing economic recovery, is taking place".

Most export categories had performed better in a rebound after "April's public-holidays related decline".

Diamond and gold exports — SA's staples — were down 2,5% and 9,6% respectively year on year, but mineral product exports — mainly coal — were up 62,7%.

Smith said the disappointing showing of the larger export categories had not been offset by the smaller categories such as pulp, paper, vegetables and textiles, which had recently performed erratically.

# Huge deficit – but exports surge

(74A) Star 3/7/95

**BY HOWARD PREECE**
SPECIAL WRITER

South Africa ran up a deficit of more than R4-billion on the current account of the balance of payments for the five months January to May.

On the plus side, exports surged to a record level of over R8,9-billion in May against R6,96-billion in April in spite of yet another lacklustre contribution from gold. Coal, ferro-alloys and pulp and paper were among the main sectors to boost foreign sales.

But imports also raced to their highest ever monthly total in May, increasing to R9,05-billion. In April they were only R6,65-billion.

The high level of imports continued to be heavily affected by much needed inflows of capital equipment and intermediate goods.

The end result, however, was that the trade balance slipped into the red in May, the second month so far in 1995 that this has happened.

More important, the BoP current account deficit for 1995 is now set to exceed even the most pessimistic earlier forecasts of around R7-billion. In part this helps explain the decision by Chris Stals, the Governor of the Reserve Bank, to increase bank rate by one percentage point from Friday last week.

For January-May this year exports were valued at R39,66-billion against imports of R38,70-billion, according to preliminary figures from Customs and Excise. That left a balance of trade surplus of R959-million.

But South Africa always incurs a hefty net loss each month on service payments and receipts to and from foreigners. The main service, or "invisible" items are interest charges and dividends, tourism, shipping and insurance.

The Reserve Bank says that in the first quarter of 1995 this country had a balance of trade surplus of R940-million.

However, the bank reveals that there was an overall deficit on the current account of the BoP of R2 237-million for January to March. That arose because of an average monthly shortfall of almost R1 050-million on the services account.

It is clear, therefore, that the deficit on services for January to May was at least R5-billion — more likely R5,25 billion. So even with a trade account surplus of almost R1-billion there was still a deficit of well over R4-billion on the current account.

The monthly trade figures from Customs and Excise can sometimes be misleading because they can be significantly distorted by short-term factors such as the increasing or decreasing of oil stockpiles, special purchases of exceptionally expensive equipment, for example, jet aircraft, and seasonal "bunching" of some exports. Diamonds are a recurring instance of the latter.

This means that it is hazardous to read too much into large changes from one month to another in the Customs and Excise statistics. Over the medium-term, though — three to six months — the figures from Customs are a sound guide to the later, official statistics from the Reserve Bank.

Also, the ongoing depreciation of the foreign exchange value of the rand against the general basket of major currencies means that both exports and imports regularly hit record levels in rand terms but these formal records are mostly deceptive.

# R4bn balance of payments deficit but exports surge

CT (BR) 3/7/95 (74A)

By Howard Preece
Special Writer

South Africa ran up a deficit of more than R4 billion on the current account of the balance of payments (BoP) for the first five months of this year.

On the plus side, exports surged to a record level of over R8,9 billion in May against R6,96 billion in April in spite of yet another lacklustre contribution from gold. Coal, ferro-alloys and pulp and paper were among the main sectors to boost foreign sales.

But imports also raced to their highest ever monthly total in May, increasing to R9,05 billion. In April they were only R6,65 billion.

The high level of imports continued to be heavily affected by much needed inflows of capital equipment and intermediate goods. The end result, however, was that the trade balance slipped into the red in May, for the second month so far this year.

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However, the bank reveals there was an overall deficit on the current account of the BoP of R2 237 million for January to March.

That arose because of an average monthly shortfall of almost R1 050 million on the services account.

Therefore, the deficit on services for January to May was at least R5 billion. Even with a trade account surplus of almost R1 billion there was still a deficit of over R4 billion on the current account.

The monthly trade figures from Customs & Excise can sometimes be misleading because they can be significantly distorted by short-term factors such as the increasing or decreasing of oil stockpiles, special purchases of exceptionally expensive equipment, for example, jet aircraft, and seasonal bunching of some exports.

This means that it can be hazardous to read too much into large changes from one month to another in the Customs and Excise statistics. Over the medium-term, though — three to six months — the figures from customs are a sound guide to the later, official statistics from the Reserve Bank.

# BoP deficit widening at alarming rate — Mohr

74A) 77 (74B) 7/7/95

Mungo Soggot

OLD Mutual yesterday warned that SA's deficit on the current account of the balance of payments (BoP) could reach "Mexican proportions" in two years if it continued to widen at the current pace.

Presenting Old Mutual's economic monitor, chief economist Dave Mohr said the BoP deficit could increase to as much as R10bn this year, which was about 2% of GDP. In two years it would be as much as 7% of GDP if it continued expanding at the current rate — the level of Mexico's deficit which triggered its financial crisis.

"If the authorities don't act early, they may be risking a full-scale balance of payments crisis and a huge hike in interest rates."

Mohr said the prime overdraft rate could rise above 20% in the current interest rate cycle.

"Nagging worries about inflation and the BoP suggest that interest rates will not peak soon. And unless the budget deficit is cut convincingly, the prime overdraft rate could, once again, be propelled above 20% in this cycle."

It was unlikely that the economy was on course for a "soft landing" that would cut inflation back to single digits, cap the growing current account deficit and replenish foreign reserves to acceptable international levels.

Mohr said there could be another Bank rate hike this year, but an increase was more likely at the beginning of next year. Last week's rise in the Bank rate to 15% saw the prime overdraft rate jump to 18,5%. A rapid rise in imports — largely responsible for the deficit on the current account — suggested demand and spending remained firm.

However, there were mixed signals on the pace of consumer demand — car sales were roaring ahead, durable goods consumption was still robust, but the amount of cash in circulation was contracting after growing more than 5% for most of last year. This could suggest that consumer demand was slowing in some quarters, Mohr said.

He said SA's underlying growth rate of 3% had pulled SA "back to earth" after growth of more than 5% for most of the second half of last year. Growth this year should be about 3% — lower than the 3,5% Old Mutual predicted earlier in the year.

SA's exports performance remained weak — its share of total developing country exports had shrunk steadily in the 1990s despite the lifting of sanctions.

SA had to address structural problems like its feeble export performance and weak productivity — which had triggered "macroeconomic imbalances" like inflation and BoP pressures — to start achieving growth of closer to 6% than 3%.

# SA surplus trade balance

ST (BT) 30/7/95 (74A)

SA's trade balance with the rest of the world swung back into a R554-million surplus in June following a R135-million May deficit, writes **SVEN LUNSCHE**.

Figures released by Customs and Excise show June exports improved to R9,2-billion from R8,9-billion in May while imports slowed down to R8,6-billion from R9-billion.

For the first six months of the year, however, the trade balance recorded a mere surplus of R1,5-billion compared with a R8,5-billion surplus in the first half of last year.

Strong import demand for electrical goods and machinery from local companies totalling R14,6-billion in the six months, was largely responsible for the declining surplus as total imports rose from R33,6-billion in 1994 to R47,3-billion.

Exports rose by a mere R6,6-billion to R48,8-billion over the same period.

Among exports, mineral products increased by R2,2-billion to R5,8-billion and pulp and paper rose by 110% to R2,2-billion.

1 has just moved

# Higher exports lift trade surplus to R554m

CT (BR) 31/7/95 (74A)

Higher exports of mineral products, base metals, prepared foodstuffs, machinery and transport products helped to lift South Africa to a trade surplus of R554 million in June from May's deficit of R135 million, according to figures released by Customs and Excise on Friday.

However, the trade balance for the first half of this year is only R1,51 billion against R8,07 billion last year.

Exports in June rose to R9,18 billion from R8,92 billion in May while imports fell to R8,63 billion from R9,05 billion.

For the first half of this year, South Africa's exports were 11,7 percent above the same period last year but imports were 44 percent higher.

According to Safto, South Africa's gold, platinum and diamond exports sales did not perform well.

However, sales of other mineral products rose 62 percent and base metals were up 26 percent.— Staff writer

# Imports outpace exports

(74A) ARG 31/7/95

Business Editor

BETTER export figures in June turned May's trade deficit into a surplus, but the longer-term trend shows imports still racing ahead.

Analysing Customs and Excise figures released on Friday, the South African Foreign Trade Organisation (Safto) reportedtotal exports had risen less than 12 percent in the first six months of 1995, compared with 1994, while imports had risen 41 percent.

Main import items were capital goods to fuel the country's economic upswing, including transport equipment (up 62 percent), machinery (up 32 percent) and chemicals (up 35 percent).

The trade balance for the half-year was cut to R1,5 billion from R8, billion in the first half of 1994.

Exports of gold, platinum and diamond were disappointing. Other primary sectors showed better export growth, with export of mineral products up 62 percent and of base metals 26 percent.

Stronger sugar and wine exports helped boost food exports nearly 50 percent and machinery exports nearly doubled.

Safto reported that official figures showed exports to Africa climbed more than 50 percent to R5,5 billion. But growth might be lower than this because of errors in Customs and Excise statistics for the first two months of the year.

Exports to Europe rose 23 percent and to Asia 15 percent, while imports from Asia soared 75 percent and exports to the United States fell 18 percent.

# Trade surplus 'no cause for optimism'

(74A)

Mungo Soggot
BD

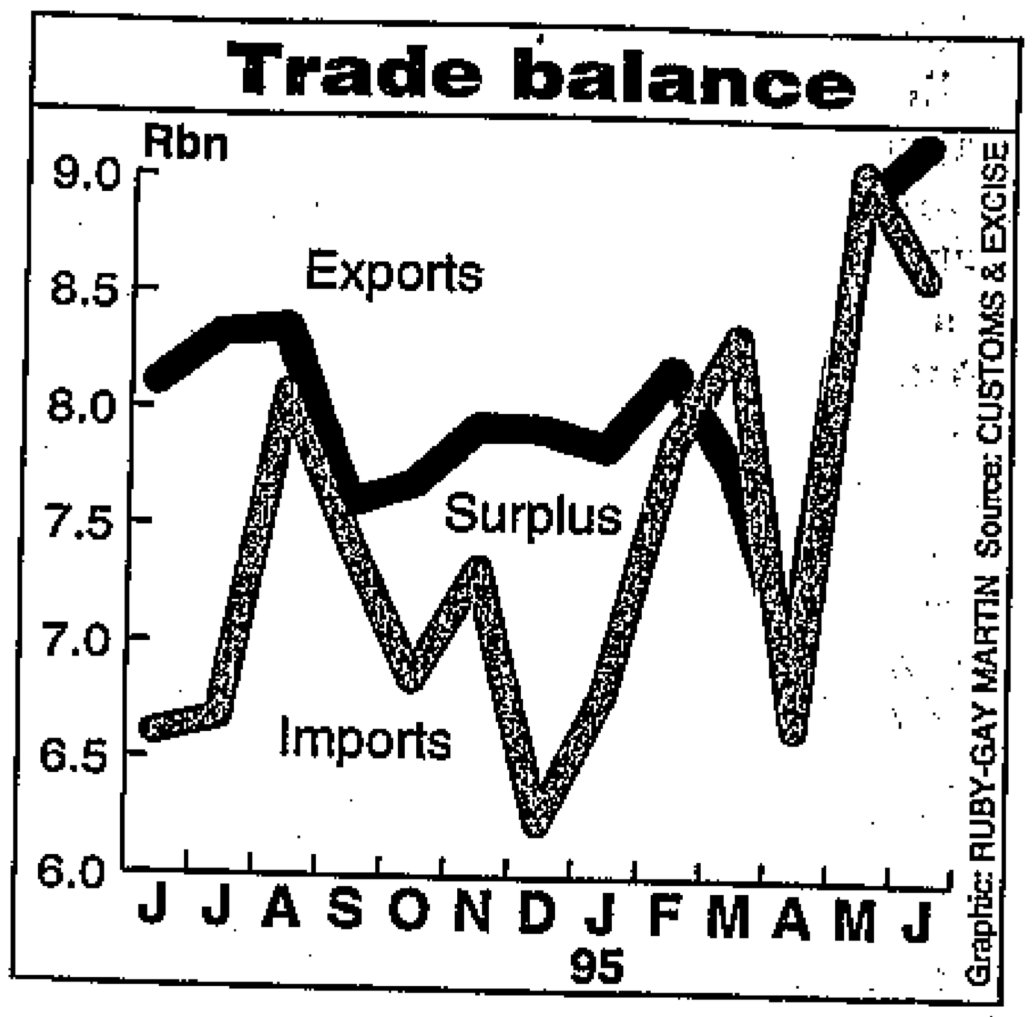
THE trade balance swung back into the black in June with a surplus of R554m after May's R135m deficit, customs and excise figures released on Friday showed.

There was a slight easing of SA's recent import binge and an improved export performance, which brought the trade surplus for the half-year to R1,5bn — a fraction of the R8,07bn in the same period last year. June's import bill was R8,63bn (R9,05bn) and exports rose, amounting to R9,18bn (R8,9bn). Imports in the first half were up 41% on the same period last year and exports were up 11,7%.

Some economists saw the better than expected figures as a signal that the trade pattern of massive imports overshadowing unimpressive exports, which was putting SA on track for a current account deficit of at least R10bn, had started to turn.

Rand Merchant Bank chief economist Rudolph Gouws said a slower rate of increase in imports should prevent the deficit expanding more than R7bn.

However, Ed Hern Rudolph chief economist Nick Barnardt cautioned against




reading too much into the figure as June had been a seasonally good trade month for the past few years. "To see these figures as pointing to any stabilisation of the current account deficit is mildly optimistic to say the least."

He said the current account deficit for the half year had been about R5,5bn. Im-

Continued on Page 2

## Surplus (74A) BD 31/7/95

Continued from Page 1

ports were unlikely to dwindle in the second half, although exports could pick up as export-orientated projects such as Alusaf and the expanded Columbus Stainless Steel came on line, and if gold production improved.

Barnardt said that considering the net reserves had improved about R5,5bn during the first half, there had been capital inflows of about R11bn to cover the deficit.

The June figures showed a 164% month-on-month and 158% year-on-year increase in gold exports, which economists said simply showed what an erratic category it was. Chemical exports were down 20% month on month, but up 22% over last year.

On the import front, machinery and electrical products were down slightly on the previous month but remained up 27% year on year. Transport equipment imports were up 52% year on year after rising 5,7% over May. The SA foreign trade organisation said the capital equipment import categories of transport and machinery were up 62% and 32% in the half, compared with last year.

# SA seen as Africa's 'sole star'

John Dludlu (74A) BD 2/8/95

AFRICA would have to accelerate the pace of its economic reforms to create economic growth, but much would depend on the ability to attract foreign investment, leading Zimbabwean economist and academic Tony Hawkins said yesterday.

He told a Trade and Investment in Africa conference in Johannesburg, organised by Standard Chartered Bank, economic reforms for growth-oriented policies were already under way in many African countries, but the implementation momentum was being slowed by an institutional framework which remained weak.

Using what he called an adapted Boston model to gauge Africa's attractiveness as an investment destination, he said SA emerged as Africa's sole star, with $11bn of foreign direct investment in terms of UN data. "Multinational companies cannot afford to ignore the country. It's essentail to move in."

The model put Swaziland, Botswana and Mauritius in the second tier of countries in Africa.

Nigeria, the Ivory Coast, Angola, Zimbabwe, Kenya and Uganda were classified as "problematic children" — countries with potential to attract foreign investments, but where this ability was inhibited by problems.

Standard Chartered Bank executive director for corporate banking Washington Matsaira said SA firms had been slow in taking advantage of trade and investment opportunities in Zimbabwe.

It would be a mistake for SA corporations to allow Malaysian and Taiwanese companies to beat them in the race to invest in Zimbabwe.

Standard Chartered's regional head for corporate and institutional banking in Africa Alex Thursby said SA could take on the developed countries in selling to Ghana, particularly services and technical assistance, as well as capital goods.

SA exports accounted for only 1% of Ghanaian imports. There was vast potential for increasing this share.

# Turnaround of BoP with R9,8bn inflow

(74A) CT (BR) 21/8/95

By Claire Gebhardt

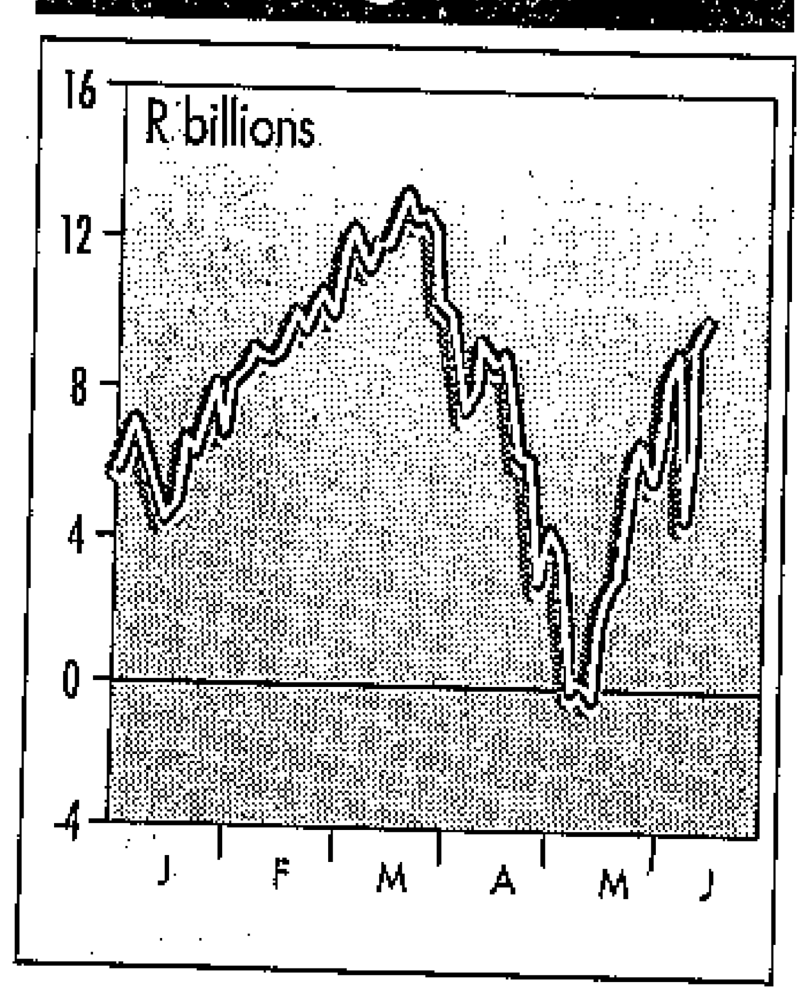
The capital account of South Africa's balance of payments achieved a remarkable turnaround in the first six months of the year with a record net inflow of R9,8 billion, according to the Reserve Bank's latest Annual Economic Report.

This compares with a net outflow of capital of R15,0 billion for 1993 and a net inflow of R5,2 billion for last year.

This boosted the overall balance of payments position, with a rise in total net gold and other foreign reserves of R4,2 billion in the first half of this year from a R3,2 billion fall in the first half of last year.

In the 12 months ended in June this year, total net gold and other foreign reserves advanced by R10,6 billion. Gross gold and other foreign reserves amounted to R15,2 billion at the end of June — equivalent to imports of goods and services for six weeks.

**Net foreign reserves**



Economy springs to life

# BoP deficit at R10bn as imports surge

(74A) BD 21/8/95

**Greta Steyn**

THE current account of the balance of payments hit an annualised deficit of more than R10bn in the first half of this year, reflecting a huge appetite for imports as the economy came alive after years of isolation and stagnation.

The Reserve Bank's annual economic report, released ahead of the Bank's AGM tomorrow, paints a picture of an economy beginning to break free from the shackles of apartheid economics. Fixed investment spending has surged, fuelling demand for imports — a situation SA can afford for the first time in more than a decade because it has access to foreign capital.

Real fixed investment has been rising at an average annualised rate of 8,5% per quarter in the current upswing — higher than in any of the three preceding economic upswings. The new investment spending had brought to an end a period in which SA's productive capacity shrank.

The report ascribed the rise in investment partly to the creation of a more investor-friendly environment and the fading away of the need to maintain a surplus on the current account of the BoP.

The Bank said there had been a net inflow of R9,8bn in foreign capital in the first half of the year. It attributed the inflows to the normalisation of international financial relations, the regaining of access to international capital markets and certain tax and other changes to create a more investor-friendly environment. The Bank noted "a marked improvement in non-resident investor confidence".

In the second quarter of this year, there was a net inflow of R4,4bn of capital after R5,4bn in the first. Most of the inflows were of short-term capital, but there had been a net inflow of R4,3bn in long-term capital in the first half of this year — despite large foreign debt commitments.

The abundance of foreign capital meant SA could finance a huge increase in imports without putting strain on the foreign exchange reserves. The report said the physical volume of imports rose by 45% from the start of the economic upswing in the second quarter of 1993 to the second quarter of this year. As expenditure on large capital projects and other investment programmes gained momentum, the imports of capital goods increased sharply.

The increases in real fixed investment

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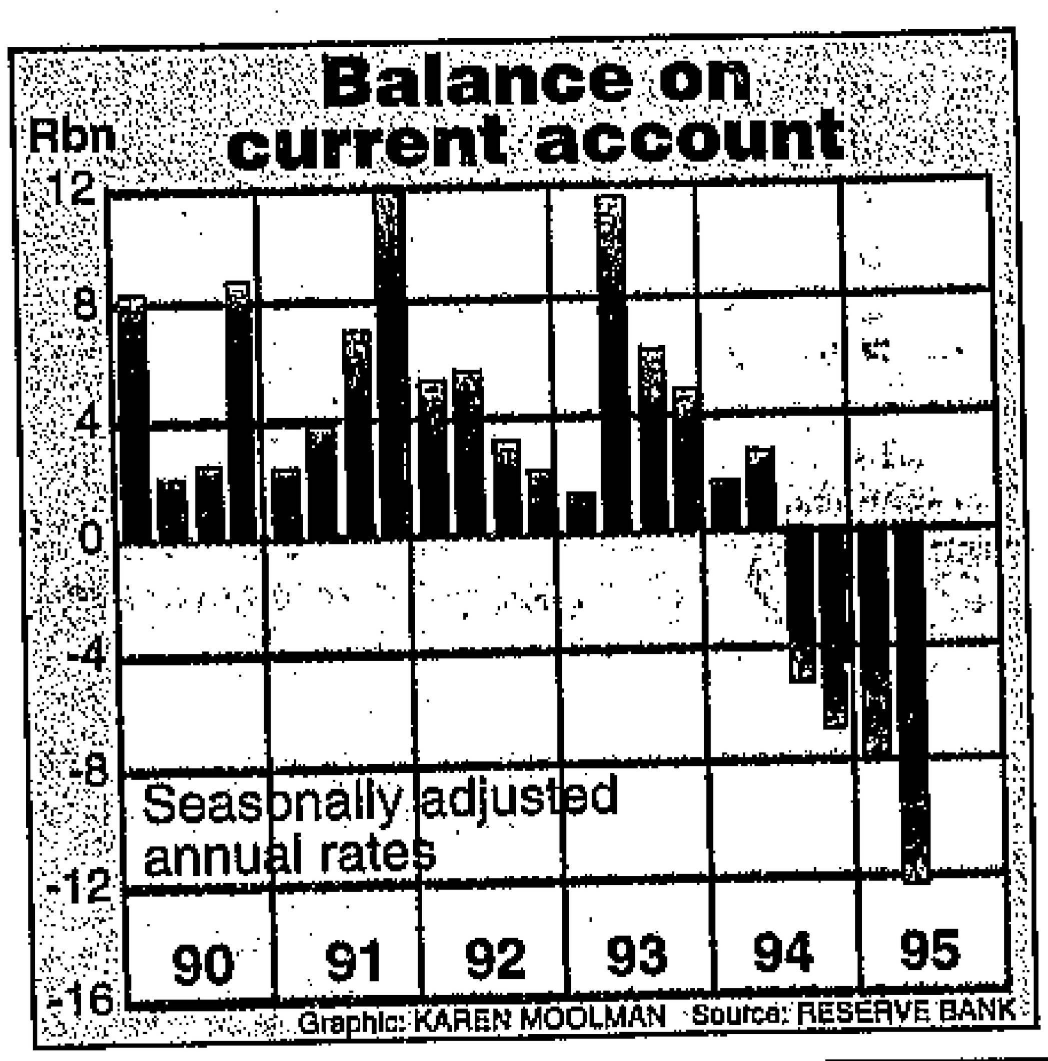



## BoP deficit

Continued from Page 1

(74A) BD 21/8/95

and inventories during the present upswing had been well above those achieved in the upswings during the 1970s and 1980s. By contrast, the increases in real private consumption expenditure and real government consumption spending were modest in comparison to previous upswings. Inflation had been slower to respond to heightened economic activity than in any of the upward phases since the early 1970s.

Capital expenditure on a few major projects had been mainly responsible for the revival of fixed investment in 1993, the report said, but the increase in investment had become more widespread as the economic recovery had gained momentum. A large part of higher investment was related to the replacement of ageing equipment, which had probably been deferred because of the long recession and the uncertainty about the outcome of the political transition.

Gross fixed investment rose to 16,5% of GDP in the first half of 1995, from a lower turning point of 15% in the second half of 1993. This level of fixed investment was nevertheless still well below the level of more than 25% needed to sustain high, employment-creating growth.

● Comment: Page 8

# Soaring exports create surplus

(74A) STAR 30/8/95

■ BY DEREK TOMMEY

South Africa's trade balance swung into a surplus of R1,08 billion last month as exports soared to a record R10,41 billion following a revised June export figure of R8,4 billion.

In July last year exports were worth R8,33 billion.

Imports last month reached record highs at R9,33 billion from R8,63 billion in June and R9,05 billion in May.

The July trade balance follows a deficit of R230 million in June and a deficit of R130 million in May.

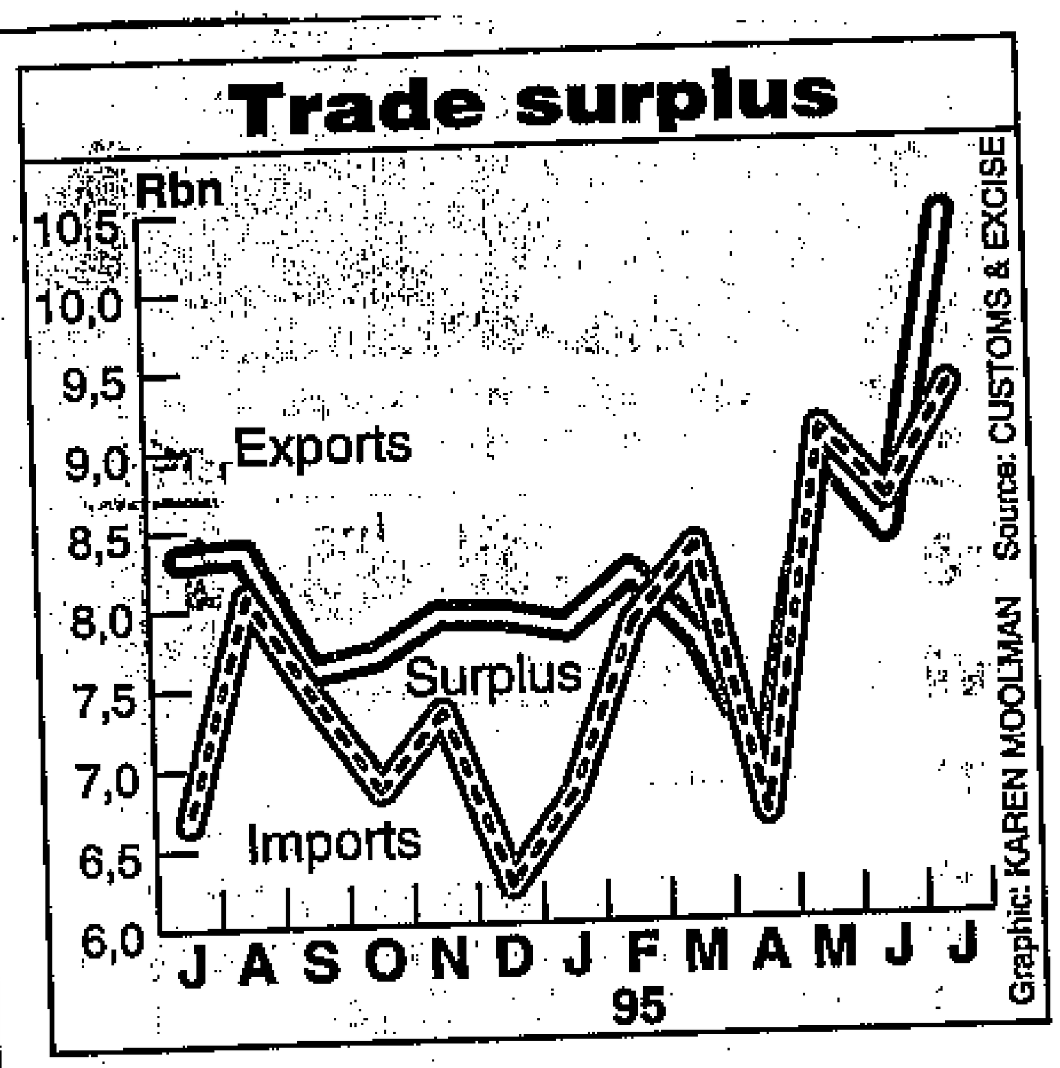
However, shipping movements at the ports had been disrupted by labour disputes in recent months and could have been responsible for some of the surge in July's exports, analysts said.

Exports in the first seven months of this year rose by 15,5 percent from R50,4 billion to R58,25 billion.

But imports surged 39,6 percent from R40,3 billion to R56,4 billion resulting in the trade surplus falling from R10,15 billion in the first seven months of last year to R1,83 billion in the same period of this year.

Ann Moore, the general manager of Safto, said non-gold exports soared in the first seven months by 35 percent.

Exports of mineral products and base metals, two of the main contributors to South Africa's export earnings, showed sharp increases.




# Surge in exports aids trade balance

(74A)

**Mungo Soggot**

A SURGE in exports helped SA's trade balance bounce back to a R1,08bn surplus in July after a R226m deficit the previous month, customs and excise figures released yesterday showed.

The figures sparked confusion in the markets, because the June trade balance was revised from a R554m surplus released last month. Many economists said this massive revision was merely the latest in a spate of errors from the understaffed department and warned the markets could start to ignore these crucial balance of payments figures. Investors had to have confidence in the reliability of economic indicators, one said.

The revision followed mistakes in the machinery and manufacturing categories, which the department said was partly caused by clerical errors.

Economists were annoyed over the lack of clarity about the errors in the two categories, as this meant it was pointless working out changes between June and July. Some feared the July figures would be subject to an equally dramatic revision.

A capital market analyst said the market had not reacted to the better-than-expected trade balance because of the confusion. The figures showed the 24% month-on-month increase in exports in July to R10,4bn had outstripped the 8% increase in imports to R9,3bn.

SA Foreign Trade Association GM Ann Moore said although exports for the year to July were up only 16,6% on the same period last year, exports excluding gold

BD 30/8/95 Continued on Page 2

# Trade balance (74A) BD 30/8/95

**Continued from Page 1**

had soared 35%, mainly because of a sound performance from base metals and mineral products. Exports of machinery, pulp, paper and chemicals were all significantly up on last year's levels. Standard Bank said the 33% month-on-month increase in unclassified exports suggested gold exports were starting to recover.

Economists were divided over whether the long-awaited slowdown in the pace of imports had arrived. One said the increase in the machinery and equipment category — up 23% month on month — showed the fixed investment boom which had been propping up SA's import bill appeared to be running at full steam. Standard Bank said the strong performance by many import categories suggested demand for imported goods had not calmed.

(74A) Star 5/1/95

# SA underborrowed by $16-bn — Econometrix

■ BY CLAIRE GEBHARDT

SA's foreign debt to GDP ratio is so low it could take on an additional $16 billion of foreign debt without being overborrowed, says Econometrix director Azar Jammine.

Downplaying alarm over the paucity of SA foreign reserves in the context of debt repayments in 1995, he says the foreign debt to GDP ratio of 14 percent is half the average level for emerging countries.

The other side of the coin, however, is that SA's net gold and foreign reserves are by far the lowest of any emerging country.

SA's foreign repayment schedule until 1998 is onerous, with debt repayments in 1995 alone amounting to as much as $2,3 billion.

But while debt repayments for 1995 exceed the current levels of net reserves, there is no reason to panic.

"SA could theoretically double its foreign debt without becoming any more highly geared than the average emerging country.

"The magnitude of this leverage capability dwarfs concerns about the $2 billion level of net reserves, or the $2,3 billion debt repayments which have to be made."

The Reserve Bank could tap facilities from foreign banks of some $3 billion.

SA is in a position in which it is short of foreign exchange, but can solve the problem by exploiting its underborrowed situation.

# Big inflow of capital bolsters BoP

(74A) Star (BR) 25/9/95

By Derek Tommey

Mining Editor

Principal features of the South African economy in the second quarter this year showed strong growth in the non-primary sectors, increased personal spending largely financed by credit and a sharp deterioration in the current account of the balance of payments which, however, was offset by a substantial inflow of foreign capital, reports the Reserve Bank in its latest bulletin.

Poor weather conditions and the lower gold output led to a further slackening in economic growth in the second quarter, says the Reserve Bank.

But activity in the non-primary sectors continued to expand strongly. The manufacturing sector reached a rate of capacity utilisation only slightly lower than at its peak in the cyclical upturn of 1986-89.

Growth in real value in the secondary and tertiary sectors accelerated from an annualised rate of 3,5 percent in the first quarter to 4,5 percent in the second quarter.

"This more robust growth was fairly widespread, but was particularly evident in manufacturing, commerce, transport and communication and financial services."

The growth of output in the secondary sectors rose from an annualised 4,5 percent in the first quarter to an annualised 6 percent in the second quarter, with manufacturing growth growing to an annualised 7 percent.

The high level of activity in the non-primary sectors was accompanied by the accelerated growth in real gross domestic expenditure as a result of further increases in inventories, gross domestic fixed investment and private consumption expenditure.

Against this, consumption expenditure of the general government remained on the lower level reached in the first quarter of this year possibly as a result of administrative problems restraining spending by the provincial administrations.

A broadening of investment activity in the private sector also seems to confirm that production capacity is being created in anticipation of further strong growth in demand.

Consumers' real personal income rose in the second quarter, owing largely to an increase in dividend receipts, to employment growth and to an improvement in workers' real wages.

This supported a further strong growth in consumer demand. But the largest part of households' higher outlays on appliances, transport equipment, clothing and footwear and other durable and non-durable goods was financed by means of consumer credit.

"Economic expansion based to an important extent on higher consumer demand financed by means of increased household indebtedness is not a sound basis for sustainable economic development," says the Reserve Bank reprovingly.

Reflecting the economy's high marginal propensity to import, imports continued to rise while the volume and value of net gold exports shrank further and a weaker export performance led to a decline in merchandise exports.

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CT (BR) 25/9/95 (74A)

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# Preferential deal may miss deadline

BD 26/9/95

John Dludlu (74)

GOVERNMENT plans to reinstate the controversial trade preferences on Zimbabwean clothing and textiles could miss the end-October deadline, trade and industry's chief director for foreign trade relations Faizel Ismail said over the weekend.

Ismail said he based this judgement on the pace and the volume of consultation that had to take place.

The Zimbabwean party had indicated at the bilateral talks their desire to table further information on the deal, a factor which could delay the talks. "This information is still outstanding."

As a result of this a date for a meeting, which was to have finalised details before the deal came into operation at the end of October, had not been set.

Another factor which had cast doubts on government's ability to meet the October 30 target date had been the three-way consultation process with labour, represented by the SA Clothing and Textile Workers Union, and the industry federations, represented by the clothing as well as the textile federations.

These talks were taking place both within and outside the National Economic, Development and Labour Council.

Texfed and Clofed were opposed to the deal, claiming it would lead to job losses.

# Liebenberg calls for debt relief solution

(74A)

Greta Steyn

BD 12/10/95

WASHINGTON — Finance Minister Chris Liebenberg yesterday called on the IMF and World Bank to find an equitable solution to the problem of debt relief for poor countries.

In his annual statement to the joint AGMs of the IMF and World Bank, he did not refer to proposals that the IMF sell part of its gold reserves to help finance debt relief for heavily indebted poor countries, which is generally expected to be one element of a relief strategy. Instead, he was at pains to show that SA cared about the debt plight of its African neighbours.

He said: "For the first occasion in many years, there are encouraging political and economic signs that the African continent is on the upturn and that structural reforms are progressing briskly."

But his speech also suggested that the relief should not be doled out too liberally. He said the bank and fund's debt solution should provide a feasible exit strategy for the "most severely indebted" nations.

He told the international financial community Africa realised it had to take responsibility for its own economic future. Economic growth — based on trade and investor-friendly policies — lay in Africa's own hands.

Liebenberg emphasised SA's commitment to the African continent, but also said the country had massive internal problems that needed its attention. He noted that SA had attracted net capital inflows of almost R19bn in the year to June. "But the future is not without challenges, including large backlogs in social infrastructure, basic needs such as education, housing and health care, the eradication of poverty,

Continued on Page 2

## Liebenberg

(74A)

Continued from Page 1

BD 12/10/95

improvements in capital and labour productivity, higher savings and institutional reforms."

SA realised fully that domestic macroeconomic success would be insufficient for long-term economic development without parallel development within the region.

He also announced that SA was formalising its membership of the English speaking African Constituency of the IMF and World Bank.

He also hoped that the US would meet its commitments to the World Bank's soft-loan arm, the International Development Agency. It would be a "sad and indeed unnecessary irony" if, owing to a lack of resources, the soft-loan aspect of the World Bank's activities was curtailed precisely at the point where there was hope for an economic and political breakthrough.

He also praised the IMF for developing an early-warning system for financial crisis such as that suffered by Mexico at the end of last year.

The fund is to step up its surveillance of economies, and will also take a stronger stance in its discussions with governments under threat of financial disaster.

Comment: Page 6

# SA's debt to US banks rises steeply in first half

BD 18/10/95 (74A)

**Simon Barber**

WASHINGTON — SA's indebtedness to US banks rose by nearly 50% over the first six months of the year, the Federal Reserve said yesterday.

Th Reserve's latest country exposure lending survey also showed a dramatic rise in debt maturing within a year, in another indication that foreign lenders are reluctant to risk long-term exposures in SA at reasonable spreads.

Total SA debt to US banks reached $1,67bn in June, rising steadily from $1,44bn at the end of the first quarter and $1,12bn at the end of last year.

The figures do not include guarantees — at $120m in June — issued by SA residents for the US borrowings of third countries.

The shift in the maturities mix was striking. As of June, $1,16bn of SA's US bank debt was payable in 12 months or less, $445m in one to five years, and only $60m in more than five years. This represented little change in medium and long-term maturities from six months earlier, but represented almost a doubling, from $575m, at the very short end.

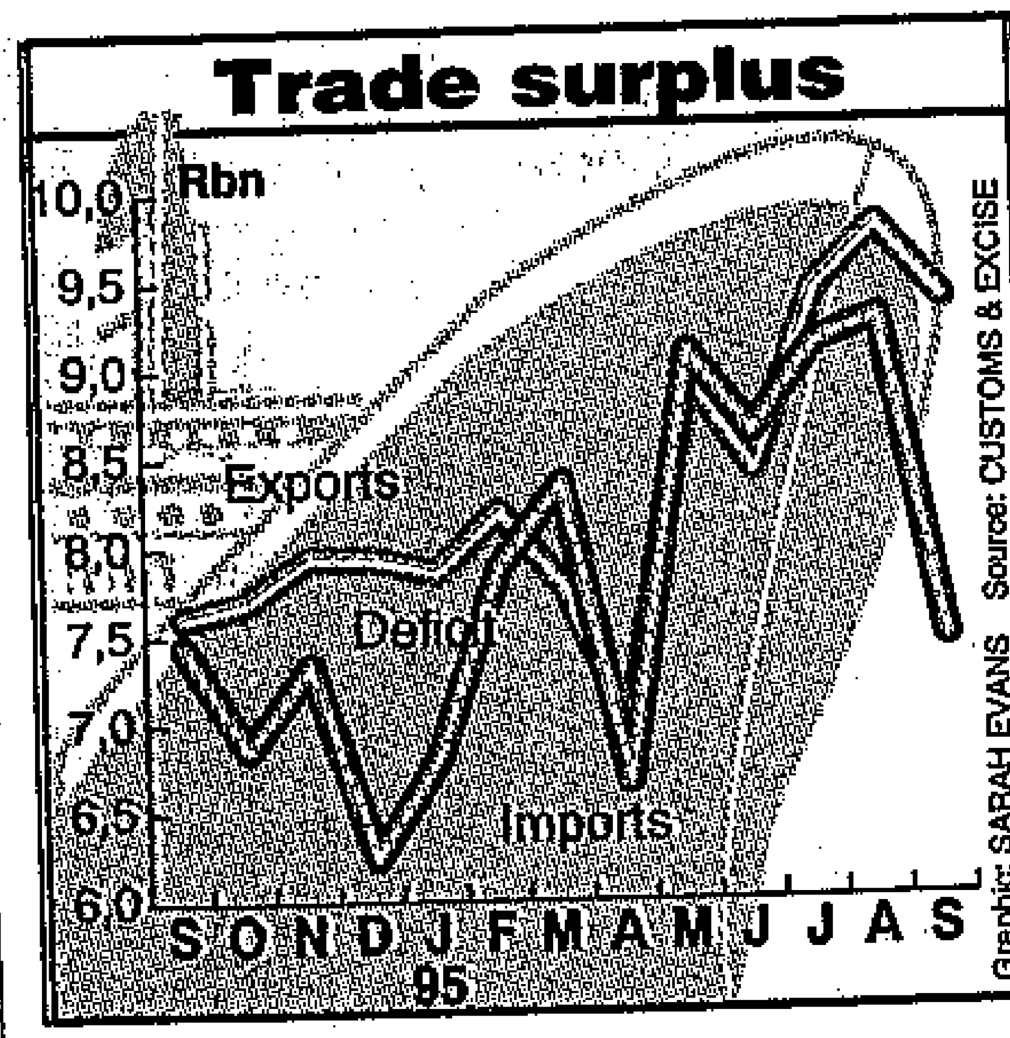
SA banks were the major borrowers in US commercial markets in the first half of this year, accounting for $973m of the $1,67bn outstanding to US banks.

Government debt to US banks fell slightly from $371m to $347m, while that of private non-bank borrowers rose from $247m to $352m.

IMF statistics released on October 9 indicated that worldwide SA raised $630m in syndicated loan commitments in the first half.

The figures also showed that apart from a seven-year $265m natural resources development loan, maturities were shortening.

The average maturity of $282m in loan finance raised by SA in the second quarter was put at one year.




# Trade balance back in the black

**Mungo Soggot** BD 27/10/95

(74A)

SA ENJOYED its largest monthly trade surplus this year in September when a sharp drop in imports pushed the trade balance R1,9bn into the black from the previous month's R516m deficit, customs and excise figures released yesterday showed.

However, economists said although the figure was far better than expected and would be a tonic for the shaky balance of payments (BoP), the cut in the monthly import bill was probably a once-off. Transnet economist Mike Schüssler and Old Mutual chief economist Dave Mohr said the drop was probably caused by importers holding back for a month ahead of the cut in import surcharges on October 1.

The import bill was pegged at R7,44bn — a 23% drop on August's R9,76bn. This meant there had been a 2,8% year-on-year drop in imports, which Schüssler said was the first since April last year. SA's export performance at R9,35bn was slightly better than the previous month's R9,24bn.

Several non-gold export categories were boasting sustained growth, including chemicals which were up 46% in the nine months to September from the same period last year, paper and

**Continued on Page 2**

# Trade balance

(74A)

**Continued from Page 1**

BD 27/10/95

pulp which were up 81% and machinery (up 79%).

Gold exports were down 15% in the nine months to September compared with the same period last year.

Many economists again expressed concern about the accuracy of the department's figures, particularly in the light of reports that only 1% of imports at Durban harbour were checked because of a lack of staff and that 25% of imports were incorrectly invoiced. "A revamp of the department is long overdue," said Schüssler, while another economist said: "I take all customs and excise figures with a big pinch of salt."

Old Mutual's Mohr said that although some of the recent monthly figures had been botched, the overall pattern from the figures appeared sound.

Schüssler said the trade surplus for the year to September of R3,2bn would probably take a sharp knock in October as a hefty import bill was on the cards.

SA would then be on track for a deficit on the current account of the BoP of about R11bn for the year.

# Trade balance falters

(74A) ST(BT) 26/11/95

By MARCIA KLEIN

SOUTH Africa's trade balance weakened to a deficit of R1,07-billion in October from a R1,91-billion surplus in September, fuelling fears that the country is firmly entrenched in a deficit trend.

Customs and Excise figures show that exports dropped to R8,01-billion from R9,35-billion in the previous month, while imports grew to R9,08-billion from R7,44-billion in September.

The longer term deficit trend is evident in figures for the period January to October, where exports worth R84,85-billion compare with R74,06-billion in 1994. Over the same period, imports grew to R82,70-billion from R62,61-billion previously.

Gad Ariovich, head of research at Bonner & Freemantle, says: "Aggregate figures reflect what SA is good at — the export of natural resources, and minerals."

Categories which reflect further beneficiation of natural resources, such as manufactured articles, machinery and television sets, show the move towards value added products.

So far this year, imports increased by over 33% while exports grew by only 15,2%.

# Poor export levels hit trade account

(74A) ARG 27/11/95

JOHANNESBURG. — Disappointly low exports sent the trade account spinning into a huge deficit of R1,07 billion in October.

Exports were at their lowest level since April, while imports recovered from the previous month.

According to figures released in Pretoria by the Department of Finance's Commissioner for Customs and Excise, imports rose by 22 percent to R9,077 billion from 7,442 billion in September, while exports fell by 14 percent to R8,007 billion from R9,348 billion in September.

October's surprising deficit followed a R1,91 billion trade surplus in September.

The trade account has alternated between surplus and deficit since the beginning of this year, when imports of mainly capital goods surged.

From the trade account needs to be subtracted monthly transfer and service payments of between R1,3 billion and R1,5 billion to arrive at the current account of the balance of payments.

Following 10 years of healthy current account surplusses, South Africa registered a deficit of R2,1 billion.

Economists are now forecasting a current account deficit in excess of R12 billion for 1995.

— Sapa.

# SA trade balance swings far into red

(74A) BD 27/11/95

Greta Steyn

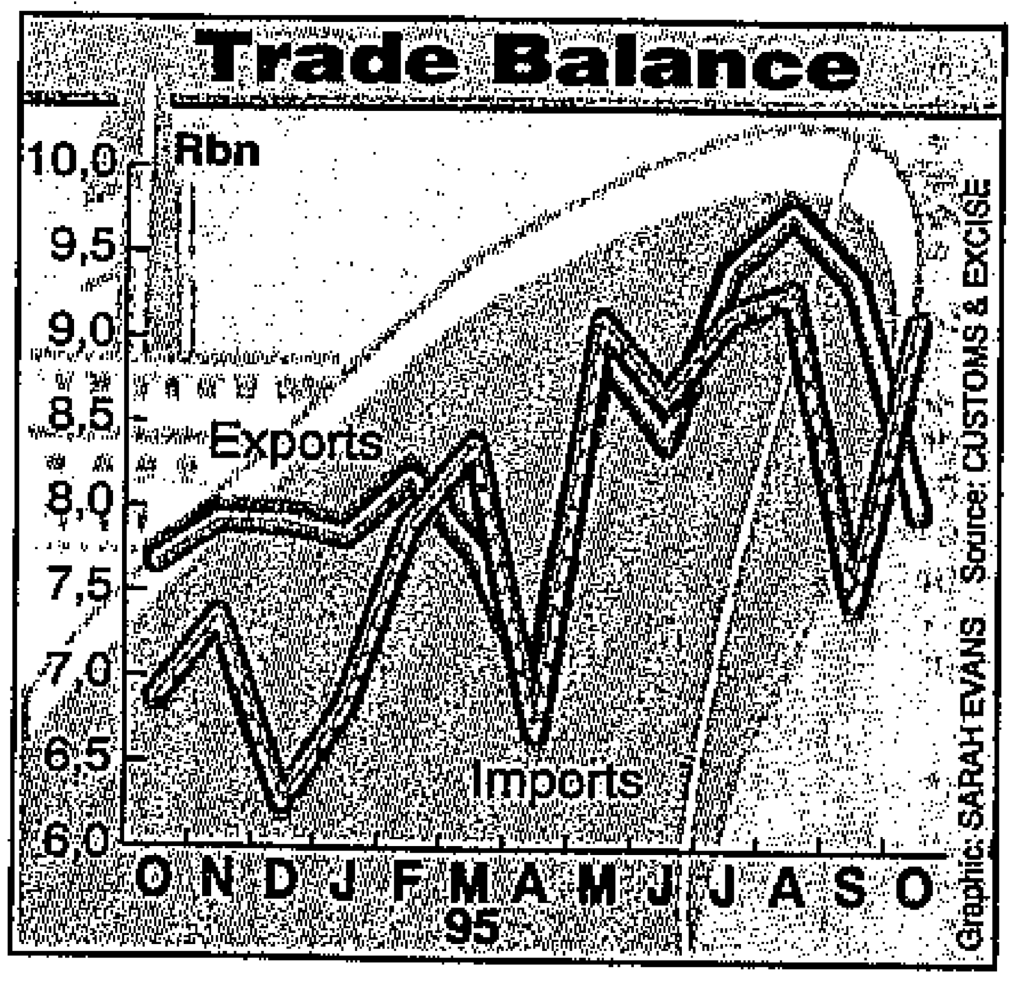
THE scrapping of import surcharges and a weak export performance combined to push SA's trade balance into a R1,07bn deficit in October — a massive swing into the red from September's R1,9bn surplus.

A deficit had been expected as the scrapping of surcharges had revived the country's appetite for imports after a pause in September. But the fall in exports was disappointing, as economists had hoped they would hold up well enough to dampen the effect of strong demand for imports.

Customs and excise figures show exports fell to R8,01bn in October from R9,35bn in September. Imports soared to R9,08bn from R7,44bn.

Economists said the silver lining for the BoP was that there had been more than enough foreign capital flowing into the country to finance the massive current account deficit in October.

Nedcor economist Magan Mistry said imports had returned to normal levels after the respite as importers awaited the scrapping of surcharges. He noted there had been an increase to R2,7bn from R2,4bn in imports of machinery and mechanical appliances in response to the lifting of surcharges. He also speculated the R857m in im-

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## Trade balance

(74A)

Continued from Page 1

BD 27/11/95

ports reflected as "special classification" could have been vehicles. Customs and excise recently introduced this category for goods that could not be classified in time for the release.

Mistry noted that the export figures had been affected by an apparent downward revision of July's huge chemical exports. The result was "negative exports" of R130m in chemicals last month. In addition, the unclassified category — gold, uranium, platinum and arms — was down to R2,55bn in the month from R2,85bn.

Transnet economist Mike Schussler pointed out that unclassified exports in the first 10 months were more than R3bn lower than in the corresponding period last year, which suggested gold volumes were significantly lower.

Old Mutual economist Johann Els said he was disappointed in the low export figure, but the trade balance was in line with projections of a current account deficit of about R12bn for the year. The current account is the trade balance less net payments for "invisible" trade in services such as interest, dividends, freight and insurance.

Another economist said the current account deficit in October must have been about R2,4bn.

"The fact that net foreign exchange reserves rose by close to R1bn despite the big deficit suggests huge capital inflows in that month." Some of the inflow would have come from buying of SA bonds in anticipation of the Standard & Poor's credit rating.

FOREIGN TRADE (A)

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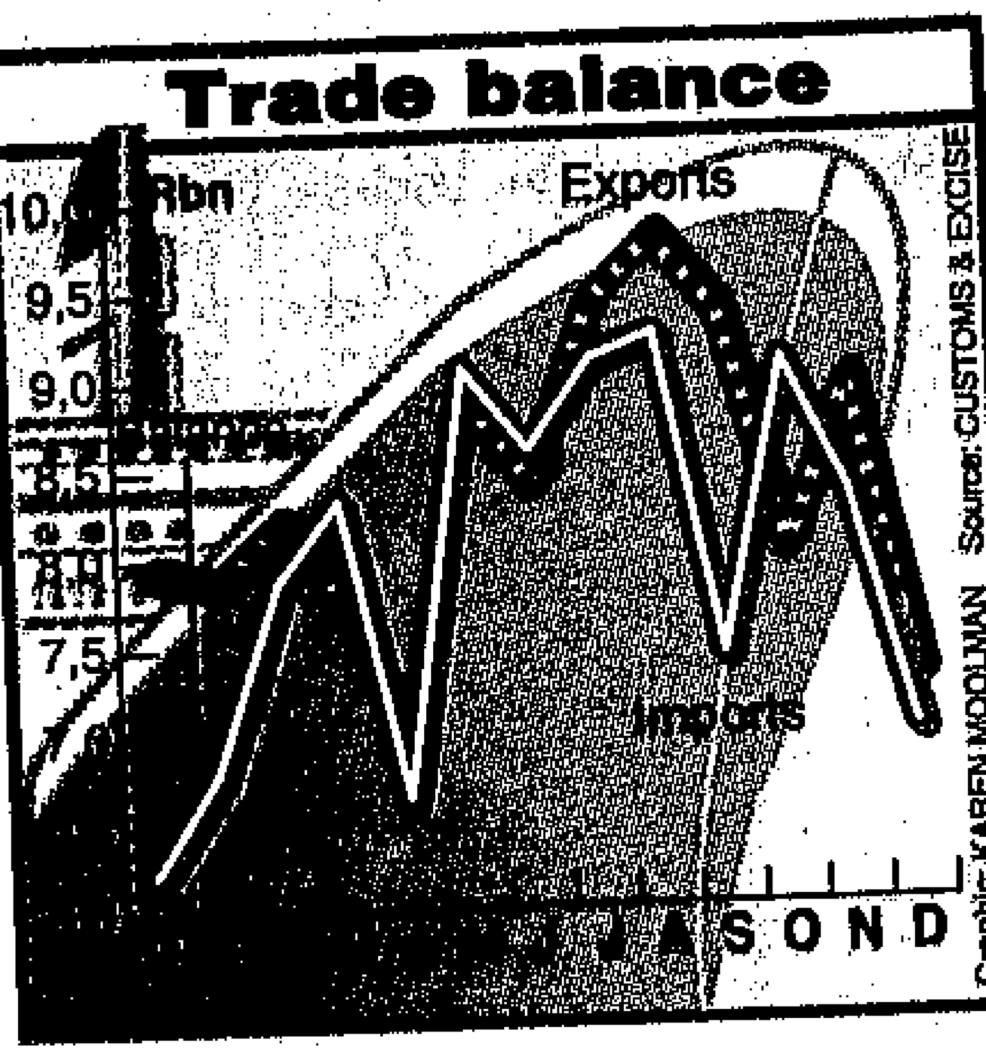



# Non-gold exports prop up surplus

Greta Steyn (74A) BD 2/2/96

A HEALTHY performance by non-gold exports helped keep SA's trade surplus in the black in December, at R258m from R602m in November.

Customs and excise figures released yesterday showed imports and exports fell, in line with expectations of a seasonal slowdown in trade. Imports fell to R7bn from R8,3bn while exports were down to R7,3bn from R8,9bn.

The December figures brought the trade surplus for the year to a meagre R3bn — compared with almost R10,6bn in 1994. Economists said SA had been fortunate to emerge unscathed from the slump in its trade surplus because enough foreign capital had poured into the country. They said the current account deficit — the trade balance less net payments for services — was estimated at R12bn for last year, which had been more than covered by about R20bn in capital inflows.

Economists said there were signs that the huge growth in imports was levelling off. The Standard Bank's economics unit said the falling trend in imports of transport equipment was worth noting — from a peak of R1,98bn in August to only R390m. The decline was only partially explained by a tech-

Continued on Page 2

# Trade (74A) BD 2/2/96

Continued from Page 1

nicality relating to the creation of a new unspecified category.

Nedcor economist Magan Mistry said the rise in imports in the fourth quarter of last year from the same period in 1994 had been only 1,3%. This was much lower than the year-on-year increases in the first three quarters of 43%, 39% and 20,5% respectively. "It looks as if import growth is slowing down," he said.

Mistry said unclassified exports — mainly gold — had fallen in December to the lowest monthly level since May 1992. "Manufactured exports have been doing really well."

The fall in gold exports weighed heavily on SA's export performance last year, with overall exports rising only about 12%. This compares with a rise of almost 27% in non-gold exports.

# Higher imports push current account deficit to record R12bn

STAFF REPORTER CT (BR) 2/2/96 (74A)

Johannesburg — South Africa ran up a record deficit of about R12 billion on the current account of the balance of payments last year, according to provisional figures from customs and excise.

Disappointing export performance in the fourth quarter of last year pushed the deficit to higher levels than had been forecast.

The Central Statistical Service said yesterday the value of physical exports was R101,05 billion last year compared with merchandise imports of R98,04 billion. In 1994, exports were R89,91 billion, against imports of R76,15 billion. But South Africa is faced with a permanent heavy net shortfall on the services account with foreigners — interest charges, dividends, tourism, insurance and shipping.

For the first three quarters of last year service accounts were in the red by about R1 250 million a month on average.

The official balance of payments statistics are provided by the Reserve Bank and its preliminary estimate will not be disclosed until the 1996-97 Budget on March 13.

# Trade balance swings into the red

CT (BR) 6/3/96 (74A)

By Sean Feely

Johannesburg — South Africa's trade balance swung into the red in January, posting an unexpected deficit of R942,2 million from a surplus of R257,6 million in December, figures released yesterday by the customs and excise department showed.

"The turnaround is quite surprising," said Pieter Calitz, a senior economist at Sanlam. Expectations were for a surplus of between R100 million and R200 million.

After the trade data was released, the yield on the 10-year government R150 bond dropped 8 points to 14,67 percent.

Imports rose 18,8 percent to R8,33 billion in January from R7,01 billion in the previous month as exports increased 1,8 percent to R7,39 billion from R7,26 billion in December.

"Imports of machinery are still surging," said Calitz. "That's because of the quite big investment drive going on and the economy's still growing at quite a pace."

Imports of machinery, appliances and related goods jumped 20,4 percent to R2,68 billion in January from R2,22 billion last year, the department said.

Economists said imports were likely to continue to rise and lead to a second annual deficit in the current account, that includes transfers and service payments such as spending by tourists.

They have forecast a current account deficit of about R12,5 billion for last year. "It may be a good current account deficit because those imports are building up the capacity for more exports," said Dennis Dykes, the chief economist at Nedcor.

The outlook for exports was mixed because of weaker world economic growth, he said.

Taking into account the monthly average deficit on the services account of R1,1 billion in the first quarter of each year, the current account deficit in January was about R2,04 billion, said Calitz.

"We'll see another deficit for the year as a whole. Last year, capital inflows covered it, and that's what we hope will happen again this year," he said.

# Long-term inflows shield BoP

BD 13/3/96 (74A)

**Mungo Soggot**

SA's capital account grew R21,7bn last year after swallowing R12,5bn worth of long-term capital, shielding the balance of payments (BoP) from a R12,7bn deficit on the current account, according to the quarterly bulletin.

The Reserve Bank said a large portion of these long-term inflows, which were more dependable than the short-term "hot" money which buoyed the BoP previously, came from foreign portfolio investment.

The surge in long-term flows also consisted of the R4,1bn in proceeds from international bond issues by the public sector and by banks, as well as several syndicated loans.

The Bank said most of the R9,2bn in short-term capital flowing into SA last year was banks' borrowings from abroad, which had gone on funding the domestic credit extension surge.

Turning to the current account, the Bank said R98,5bn worth of imports had streamed into SA to maul the current account — a 29% increase on the previous year, when the current account deficit was R2,2bn. There were increases in imports across the board and particularly strong increases in imports of machinery and electrical equipment, vehicle and transport equipment and mineral products.

The Bank said exports' value had increased 24% to R81bn, with the help of sound performances from the chemical, machinery, transport and paper sectors. Prices had firmed 7,5% after improving 11,5% the previous year.

SA's export performance had been let down by the bedraggled gold mining sector, with gold earnings declining 11% from the previous year and gold export volumes shrinking 13,5%.

# SA's balance of trade in R1,27bn swing to black

BD 29/3/96 (74A)

Mungo Soggot

SA's trade balance swung R1,27bn into the black last month, following heavy diamond exports and a sharp drop in key imports.

Customs and excise figures released yesterday surprised market pundits who had been expecting either no change or a deterioration from January's R942m trade deficit. The positive figure helped spur the rand and the bond market.

The figures showed imports had fallen 7% to R7,73bn from R8,33bn in January, while exports had charged ahead 22% to R8,99bn (R7,39bn).

Economists said the drop in imports was the latest evidence that there had been a softening in the domestic economy. The figures showed that key imports, which had dominated last year's import binge, had slowed.

The economists said machinery imports were up only 15% year on year, while vehicle imports were down 73%.

Transnet economist Mike Schüssler noted that the 78% year on year increase in diamond exports had been offset by a 75% gold export decrease.

SBC Warburg economist Bruce Donald said the diamond category was normally volatile, rising dramatically during the months that De Beers had chosen to send off its product to the Central Selling Organisation.

He said that the drop in imports could reflect a temporary downturn in the economy.

Economists expressed surprise at the 3 000% increase in vehicle exports, saying the figure confirmed their fears about the questionable accuracy of the department's trade data.

They welcomed increases in key commodity exports. Base metals had increased by 30%, chemicals by 29% and mineral products by 54%.

*BoE Natwest forecasts surplus by year-end*

# BoP deficit will disappear, say economists

CT(BR) 22/4/96 (74A)

By Audrey D'Angelo

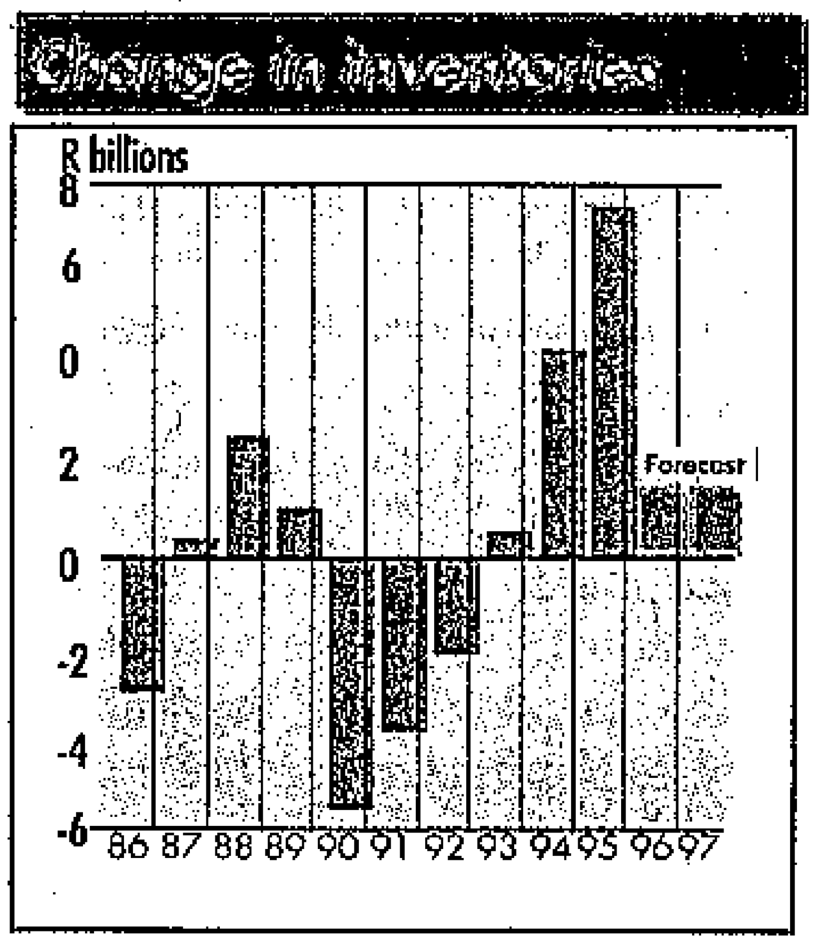
Cape Town — The slowdown in the business cycle and the resulting drop in imports could cause the deficit on the current account of the balance of payments to disappear by the end of this year, Nick Barnardt and Thea Dreyer, economists at the Board of Executors Nat West Securities, have said.

The weak rand would also boost exports and attract more foreign tourists while discouraging South Africans from going overseas, they said in their latest research paper.

They forecast "a dramatic change in inventory behaviour in South Africa this year".

After a continuous improvement from minus R5,8 billion in 1990 to R7,7 billion last year, they expected no investment in non-farm inventories this year.

"Thanks solely to the nascent recovery of the agricultural sector, total inventory accumulation of R1,5 billion at constant prices can be expected for the overall economy in calendar 1996. But this still represents a sharp decline from the R7,7 billion of 1995."




The effect of this, together with slower rates of growth in personal consumption expenditure (PCE) and gross domestic fixed investment (GDFI), implied that gross domestic expenditure would rise 1,5 percent in real terms this year compared with 6,7 percent in 1994 and 5,6 percent last year.

"However, the impact on gross domestic product growth is likely to be much less severe. This reflects the fact that the high inventory investment of 1994-95 and much of the growth in PCE and GDFI was spent on imports and consequently did not serve as a major boost to domestic GDP growth.

"Conversely, the sharp deceleration in the growth rate of overall domestic demand, together with the depreciation of the rand, will pull the rate of growth in import volumes downward quite sharply from 16,1 percent in 1994 and 17,1 percent in 1995 to approximately 5 percent in 1996."

Simultaneously, overall exports could be expected to rise 11 percent, the report said. This meant that growth in GDP was likely to outstrip gross domestic expenditure growth by a considerable margin.

The stage would be set for a possible current account surplus in the first half of next year "before moving into deficit again later next year as the domestic spending cycle re-accelerates", they said.

# SA posts trade surplus for second consecutive month

(74A) CT (BR) 30/4/96

By Nancy Myburgh

Johannesburg — South Africa posted a positive trade balance for last month for the second consecutive month, recording a surplus of R652,9 million, down from R1,27 billion in February, the customs and excise department said yesterday.

Economists said they were encouraged by the turnaround from January's deep trade deficit of R942,2 million and that the drop in the surplus was not a concern because of the high natural volatility of trade figures.

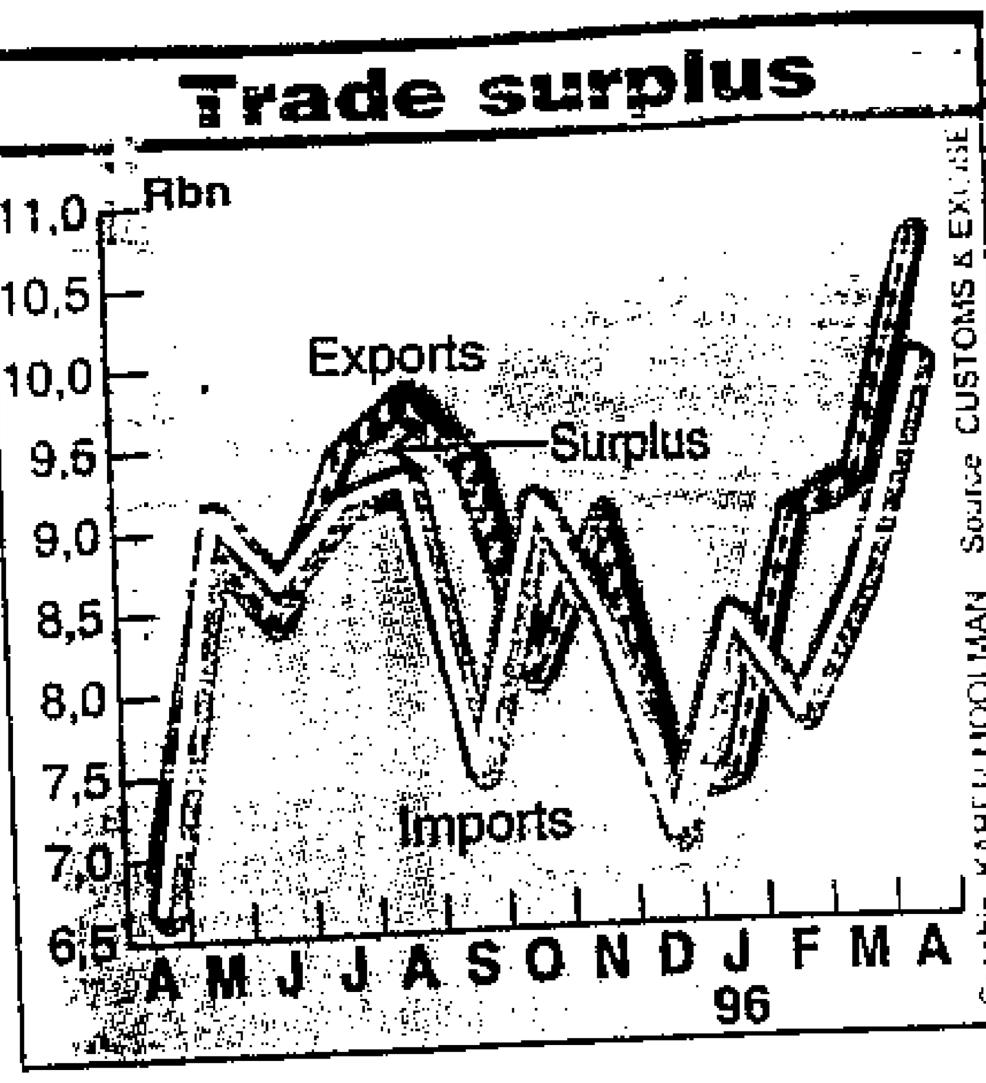
However, they said the expected benefits of the rand's recent decline were not likely to be felt this year.

"We'll see the material benefit coming through in the course of 1997 rather than this year," said Dennis Dykes, Nedcor's chief economist.

A weakening currency improves a country's trade balance, because it encourages exports by making locally produced products cheaper for foreign buyers. It also discourages imports by increasing their prices in local currency terms.

Dykes said many importers would not be able to adjust their purchasing schedules to respond to the rand's decline until later this year.

He said yesterday's increase in lending rates by commercial banks, would speed up the improvement in the trade balance.




# Surprise surge in April trade figures

(74A)

**Lukanyo Mnyanda**

SA's trade balance, spurred by a R1bn surge in diamond exports, remained in the black last month with a R757,7m surplus compared to R652,9m in March, figures released by customs and excise on Friday showed.

Economists were surprised by large month-on-month increases in both imports and exports. Imports rose to R9,9bn (R8,5bn) while exports went up to R10,6bn from R9,1bn in March. The export figure was pushed up mainly by a R1bn increase in the gems category.

Some economists said the surge in the gems category could be attributed to the inclusion of diamond sales, which had previously been left out, and sales from Botswana.

On the import side, minerals surged and machinery imports continued to grow. Transnet economist Mike Schüssler said the large increase in the minerals category, which was mostly made up of oil imports, indicated that the rand's devaluation was "finally filtering through into customs and excise figures". He said the year-on-year 46,3% increase in machinery imports was the highest rise since last June and was a positive indication that SA's capital investment was still growing.

BD 27/5/96

Continued on Page 2

# Trade figures

(74A)

**Continued from Page 1**

Old Mutual economist Erika Prinsloo questioned the size of the increase in oil imports, saying the oil price had risen only about 2% since the rand's plunge. "The figures are suspicious because the increase is a bit too much."

She said the high import figure was not alarming as there was still a downward overall trend in imports which would look better once the rand's fall had begun to affect volumes. The weaker rand would help improve the balance of payments and the current account deficit was expected to be around R5bn-R6bn. The current account is the trade balance less net payments for services such as freight, insurance, interest and dividends. "We (SA) have had an average R460m surplus over the last four months and that means last year's pessimism was wrong. Things are looking better."

Nedcor chief economist Dennis Dykes said the trade figures continued to "mystify", adding that the jump in imports may have been caused by people trying to buy imported goods before April's currency crisis had pushed up prices. "But we must treat these figures with caution because they change all the time."

BD 27/5/96

Hansard



*For written reply:*

**Public servants: leave paid out**

329. Mr K M ANDREW asked the Minister for the Public Service and Administration:

(1) What amount was spent on paying out members of the public service for days not taken as leave in (a) 1992, (b) 1993 and (c) 1994;

(2) whether there is any requirement specifying that public servants must take a minimum number of days of leave each year; if so, what is this requirement; if not, why not;

(3) whether his Department is planning to implement such a requirement; if not, why not; if so, what are the relevant details?

N577E

The MINISTER FOR THE PUBLIC SERVICE AND ADMINISTRATION:

(1) Information regarding the amounts which were spent on paying out members of the Public Service in respect of days not taken as leave in specific years, is unfortunately not readily available. However, a survey is being done to obtain information from departments/provincial administrations with regard to amounts which were spent in the following financial years for the said purposes:

(a) 1991/92

(b) 1992/93; and

(c) 1993/94.

The relevant information will, however, be supplied to the non member as soon as possible;

(2) no, the Public Service Regulations with regard to vacation leave do not require public servants to take a minimum number of days leave each year; and

(3) no, any amendment to the Public Service Regulations in this regard must be negotiated in the Public Service Bargaining Council at central level between the State as employer and the admitted employee organisations before any change can be effected. Some aspects of leave of absence in the Public Service, *inter alia*, the granting of vacation leave as a right and the payment of accumulated leave on resignation, have already been identified as matters that have to be negotiated in the Central Bargaining Chamber.

**Unused serviced sites**

396. Mr M G MASHER asked the Minister of Housing:

What was the (a) number and (b) percentage of unused serviced sites in each of the (i) provinces and (ii) metropolitan urban areas as at 31 December 1995 or the latest specified date for which information is available? N707E

The MINISTER OF HOUSING:

(a) and (b)(i) and (ii)

The required information is not readily available at national or provincial level. To provide this information, the nine provincial administrations will have to acquire the information from all local authorities. This will entail a very time-consuming process which will not be economically justifiable.

A survey, however, indicated that 622 000 serviced sites were delivered in terms of site and service schemes of the previous housing dispensation by 15 March 1994 (implementation date of the new housing subsidy scheme). It should, however, be mentioned that the information available is generally unreliable as some of the relevant authorities did not keep proper records of serviced sites and that, in certain instances, the figures are based on estimates. The following is a summary of the sites concerned:

| | |
|---|---|
| Transvaal Provincial Administration | 247 000 |
| Natal Provincial Administration | 36 000 |
| Cape Provincial Administration | 100 000 |
| OFS Provincial Administration | 105 000 |
| Own Affairs Administrations | Nil |
| Self-governing territories | 27 000 |
| Independent (TBVC) states | 2 000 |
| Independent Development Trust | 95 000 |
| Local authorities/RSC's*/JSB's** | 10 000 |
| Total | 622 000 |

* Regional Services Councils
** Joint Services Boards

Available information suggests that the majority of these sites had been allocated to households by 15 March 1994. It is important to note that, if the occupants acquired these sites on the basis of ownership, leasehold or deed of grant, they could be considered for the granting of consolidation subsidies to provide or upgrade a dwelling unit on the property. If, however, the occupants have not as yet received ownership rights in respect of these sites, they may acquire the sites as well as dwelling units thereon, in terms of other mechanisms of the national housing subsidy scheme.

The total of the unallocated sites which were delivered up to 15 March 1994 as well as sites delivered after that date in terms of pre-15 March 1994 contracts under the previous housing dispensation, amount to an estimated additional 109 124 sites. These sites were still vacant by 30 November 1995 and the sites as well as dwelling units thereon, may be acquired by qualifying beneficiaries in terms of the national housing subsidy scheme. The particulars of these sites are as follows:

| *Province* | *Number of erven* |
|---|---|
| Gauteng | 16 572 |
| Mpumalanga | 9 869 |
| Northern Province | Nil |
| North West | 4 176 |
| Free State | 3 824 |
| KwaZulu-Natal | 25 151 |
| Western Cape | 16 868 |
| Eastern Cape | 13 721 |
| Northern Cape | 18 943 |
| Total | 109 124 |



**Balance of payments: account deficit**

74A

400. Rev M M PHENETHI asked the Minister of Finance:

(a) What was the current account deficit on the balance of payments at the end of (i) 1991, (ii) 1992, (iii) 1993, (iv) 1994 and (v) 1995 and (b) what is the expected current account deficit on the balance of payments at the end of 1996?

N711E

The MINISTER OF FINANCE:

(a) Current account balance for: (– indicates deficit)

| | |
|---|---|
| 1991 | R6 187 million |
| 1992 | R3 940 million |
| 1993 | R5 829 million |
| 1994 | –R2 231 million |
| 1995 | –R12 656 million |

(b) The current account deficit for 1996 is at this stage estimated at R12 000 million.

**Amounts invested overseas by private SA sources**

404. Mr J W LE ROUX asked the Minister of Finance:

What amounts had been invested by private South African sources in the (a) long-term and (b) short-term (i) monetary and (ii) non-monetary sectors in (aa) European countries, (bb) North and South America, (cc) Asian countries, (dd) countries in Oceania and (ee) African countries at the end of (aaa) 1991, (bbb) 1992, (ccc) 1993, (ddd) 1994 and (eee) 1995?

N715E

The MINISTER OF FINANCE:

See Schedule.

Total foreign investment by the South African private sector as at 31 December

R million

| | *Monetary sector* | | | | | | | | *Non-monetary sector* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Long-term* | | | | *Short-term* | | | | *Long-term* | | | | *Short-term* | | | |
| | '91 | '92 | '93 | '94 | '91 | '92 | '93 | '94 | '91 | '92 | '93 | '94 | '91 | '92 | '93 | '94 |
| Europe | 284 | 333 | 415 | 464 | 1 785 | 2 338 | 2 411 | 4 578 | 41 242 | 50 313 | 54 865 | 65 006 | 2 003 | 2 033 | 3 132 | 3 976 |
| North & South America | 151 | 154 | 150 | 176 | 893 | 1 511 | 1 713 | 2 183 | 523 | 580 | 1 302 | 3 992 | 1 084 | 771 | 1 382 | 2 061 |
| Asia | 500 | 1 243 | 1 567 | 1 532 | 212 | 361 | 357 | 799 | 29 | 120 | 165 | 337 | 279 | 244 | 330 | 551 |
| Oceania | | | | | 7 | 10 | 21 | 42 | 32 | 11 | 53 | 126 | 28 | 30 | 35 | 35 |
| Africa | 298 | 373 | 202 | 139 | 451 | 556 | 247 | 336 | 1 914 | 2 482 | 2 747 | 3 588 | 1 021 | 1 518 | 1 497 | 1 677 |

No information is available for 1995.

# Swing to trade deficit takes analysts by surprise

(74A) CT (BR) 28/6/96

By Christo Volschenk

ECONOMICS EDITOR

Cape Town — The volatile trade account swung from a comfortable surplus of R758 million in April to a deficit of R837 million last month, taking economists and analysts by surprise.

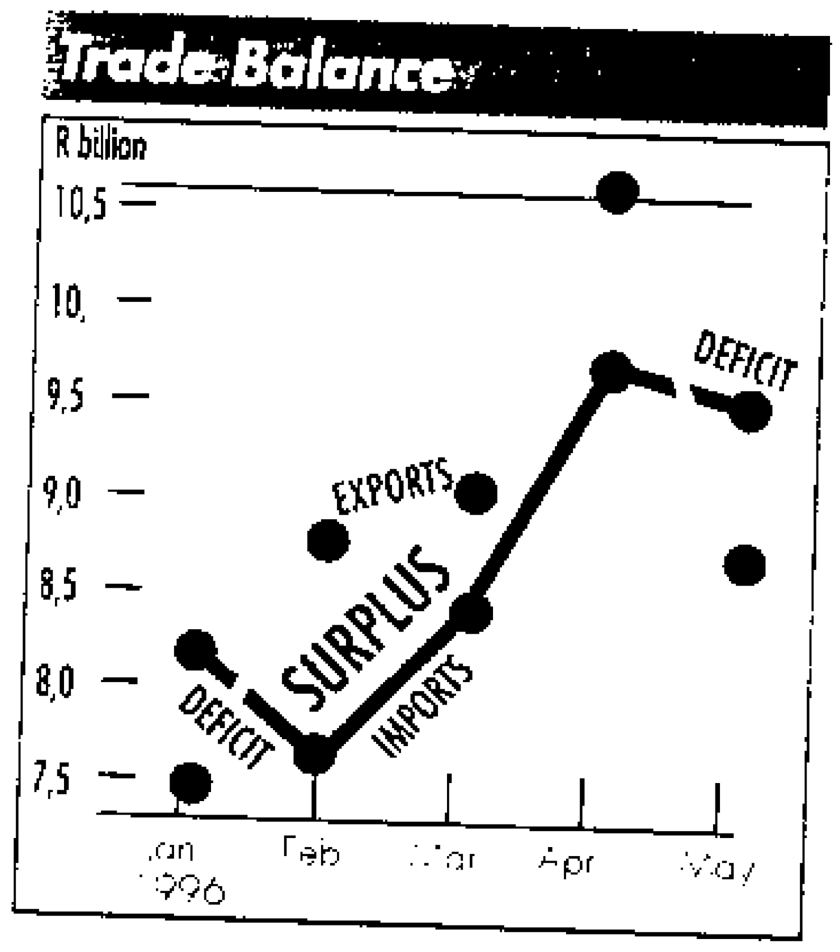
The reason for the swing was that there was no diamond sight last month. A sight is held every five weeks in London between the Central Selling Organisation and about 160 registered sightholders (diamond-cutters and jewellers) from all over the world.

Total exports dropped 16,4 percent to R8,8 billion last month and imports fell 1,6 percent to R9,7 billion, resulting in the deficit of R837 million.

Economists were expecting a surplus of about R900 million. But the swing into the red did not concern them, as they pointed out that trade figures traditionally are very volatile from month to month. The underlying trend of slowing imports and increasing exports remained in place.

"Exports will be back on the growth path in June. A diamond sight was held on June 4 and good figures are expected for diamond exports this month," said James Philip, the assistant economist at Standard Bank.

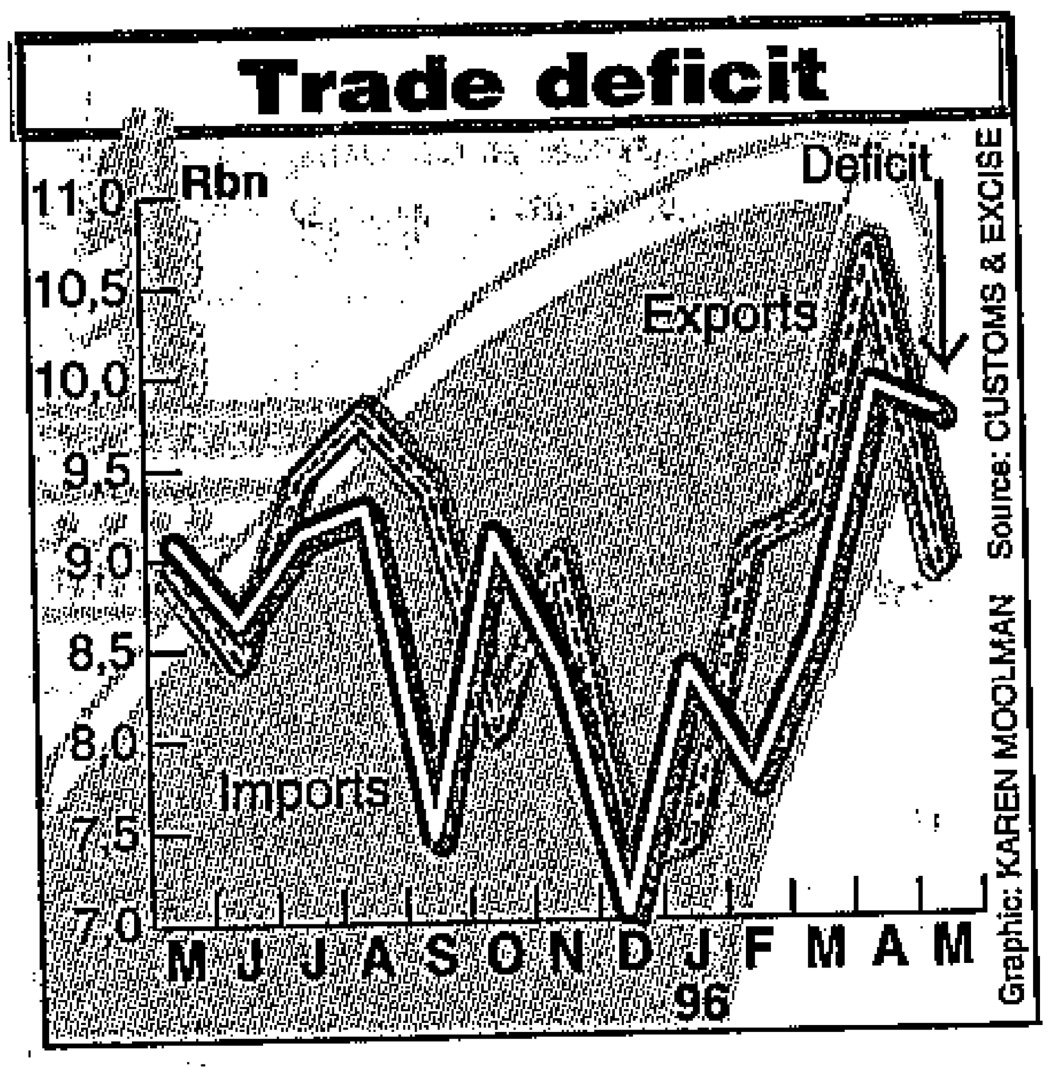
Figures released by the Reserve Bank yesterday showed the interest




rate increase in April and last month could not prevent the growth in credit extension to the private sector from accelerating again last month.

The Reserve Bank also announced that the growth in credit extension to the private sector jumped from a revised 17,34 percent in April to 18,53 percent last month, pulling the carpet from under analysts who speculated that a drop in the Bank rate might not be far off.

Credit extension dropped below 18 percent towards the end of last year and then hovered at 17 percent, raising the hope that this important indicator may at last be on its way down. Money supply figures for last month were better. The Reserve Bank said growth in the M3 aggregate dropped from a revised 15,33 percent in April to 14,36 percent.




# SA trade balance swings into red

Lukanyo Mnyanda

BD 28/6/96 (74A)

SA's trade balance swung into the red last month, posting an unexpectedly large R836,7m deficit from April's R757,7m surplus after a sharp fall in diamond exports, figures released by customs and excise showed yesterday.

Economists had expected a surplus of about R800m but warned against reading too much into the figures as they were usually erratic.

Exports went down about 16% month on month to R8,9bn in May while imports slipped to R9,7bn.

Standard Bank's economics unit said the R1,6bn drop in the export of gems and precious metals, after a R1,1bn increase in April, reflected the category's volatility. April's figure had been inflated by including diamond sales from Botswana. Although customs and excise could not be reached for confirmation, it is believed the sales were o[illegible]ted from May's figure.

The fall in imports was caused mainly by a drop in the mineral products category to R833m, compared to R1,3bn in March. Machinery imports were steady at R3,2bn.

Old Mutual economist Erika Prinsloo expected the current account deficit for the year to be about R8bn, against estimates before the rand's plunge of about R15bn.

# Short-term foreign debt is almost $7bn

(744)

Greta Steyn 8/7/96

SA's short-term foreign debt has exploded, leaving the country vulnerable to sudden exchange rate shifts.

According to the latest Reserve Bank Quarterly Bulletin, SA's short-term foreign debt — with an original maturity of less than one year — is almost $7bn this year. This compares with almost $4,9bn last year.

Other debts falling due bring the total bill for this year to almost $10bn against foreign exchange reserves of about $2,6bn.

The massive short-term debt can be rolled over easily. However, SA borrowers paid back huge chunks this year, when the rand's crash made it prohibitively expensive to have foreign commitments.

The rush to switch from foreign to local sources of borrowing was one of the reasons for persistently high credit demand and aggravated the rand's weakness, causing a spiral of currency weakness and capital outflows.

The bulletin shows short-term capital outflows were R4,3bn in the first quarter. An economist said that a large chunk of this was the result of borrowers choosing to settle their foreign trade and other credits when the rand started falling in mid-February.

Figures made available by the Bank for International Settlements (BIS) confirm the debt picture and suggest that the short-term debt might be even higher. Our London correspondent reports BIS figures show foreign bank borrowings by SA borrowers soared $2,26bn to $16bn last year.

Short-term loans accounted for more than $10bn of this figure. These are loans of up to one year.

The BIS figures illustrate how foreign bank borrowings contributed to the increase in SA's reserves last year. They indicated that SA borrowers must have experienced steep foreign exchange losses as a result.

European banks were the most significant lenders to SA, with German and British banks leading the pack. American banks had lent $1,65bn and Japanese banks $1,11bn.

# Exports lag behind as trade spirals

(74A) ST (BT) 21/7/96

## THE ECONOMY

**The lifting of sanctions and the subsequent upturn in the domestic business cycle saw imports grow at a substantially faster rate than exports in 1994 and 1995, writes MARCIA KLEIN**

IN SPITE of sanctions, exports from South Africa grew by 10,6% a year from 1985 to 1995 and totalled just over R100-billion last year, according to research by Absa's economic department.

The figures are based on Southern African Customs Union data which, apart from South Africa, includes Botswana, Namibia, Lesotho and Swaziland.

Exports to Africa grew by an impressive 23,5% a year during the decade, while exports to Oceania (Australia and New Zealand) grew 18,7%, Asia 14% and Europe 12,6%. Exports to America grew by a modest 8,2% a year.

Absa says imports grew faster than exports — at 15,8% a year and to R98-billion in 1995 — mainly owing to a substantial acceleration in 1994 and 1995 after sanctions were lifted and the domestic business cycle turned.

Imports from Asia increased by 24% per annum, underlining the growing importance of trade with this region, and imports from Asia now exceed imports from the Americas. Imports from Oceania and Africa also showed strong growth.

Europe was the country's largest trading partner during the decade, and its share of both exports and imports increased.

"Although trade with Africa increased sharply in the last two years, total trade with Africa remains relatively small and we do not foresee that it will increase to more than 10% of South Africa's total foreign trade within the next decade," Absa says.

Excluding gold, the most important export categories were precious and semi-precious stones, iron and steel, mineral fuels, ores slag and ash and machinery. Low value-added goods predominated, but Absa says higher value-added goods were "not insignificant".

"Given the country's low electricity costs, coupled with import tariffs on higher value-added products to be lowered as agreed upon under the WTO's trade agreement, it can be expected that the relative share of higher value-added exports will increase in future."

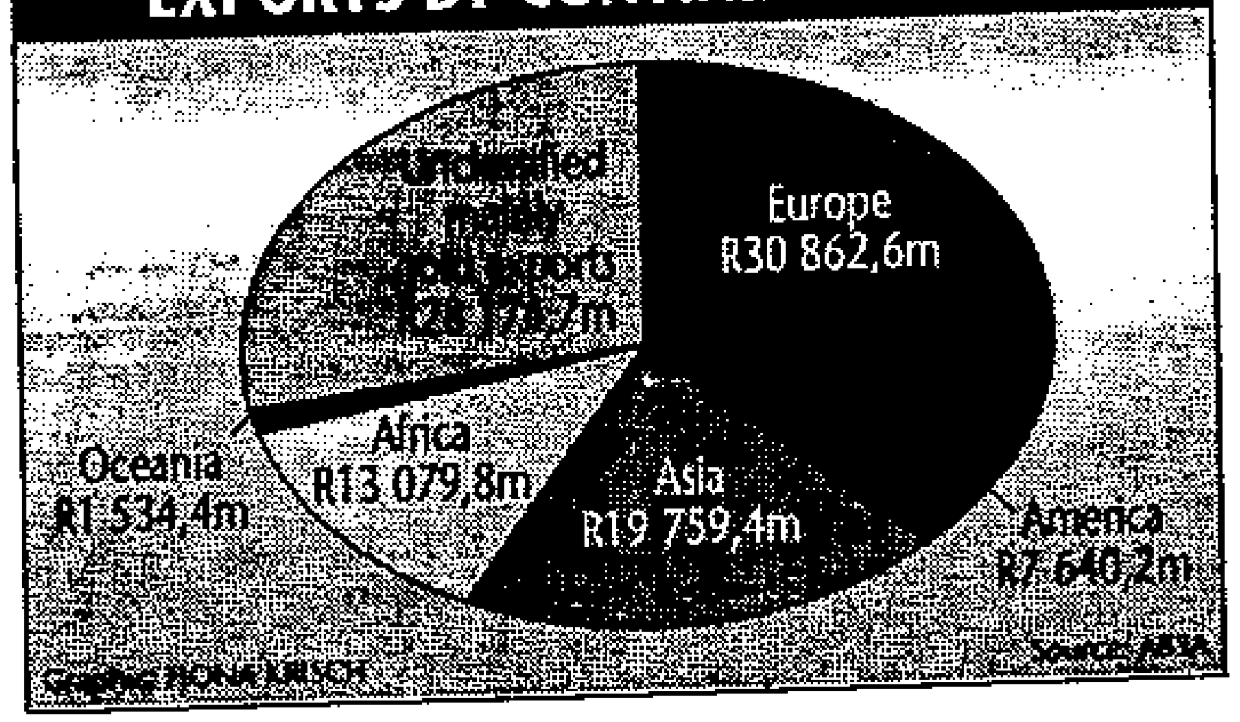
Exports to Japan were R11,4-billion or 12,3% of all exports excluding gold in 1995. Exports to the UK were 9,3%, Germany 5,7% and the US 4,8%.

Imports were mainly high value-added items and were highly concentrated in four main categories — machinery, vehicles, parts and accessories, electrical machinery and mineral fuels (mainly crude oil). Imports from Germany amounted to R16-billion or 15,2%, followed by Japan (10,8%), the UK (10,7%) and the US (6,7%).

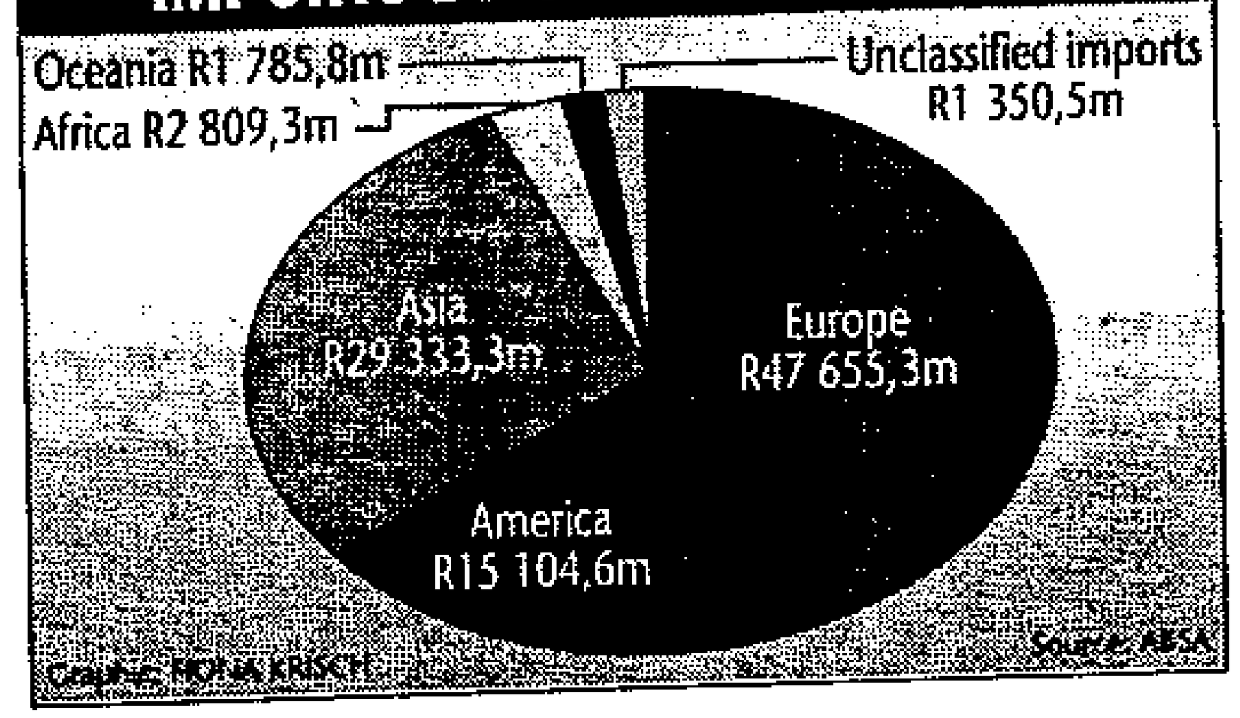
Absa says that in the decade to 1995, South Africa was faced with a large net outflow of capital amounting to R48-billion. This put the economy "in a strait-jacket" and was one factor behind slow economic growth. Once sanctions were lifted, there was a net inflow of capital in 1994 and 1995.

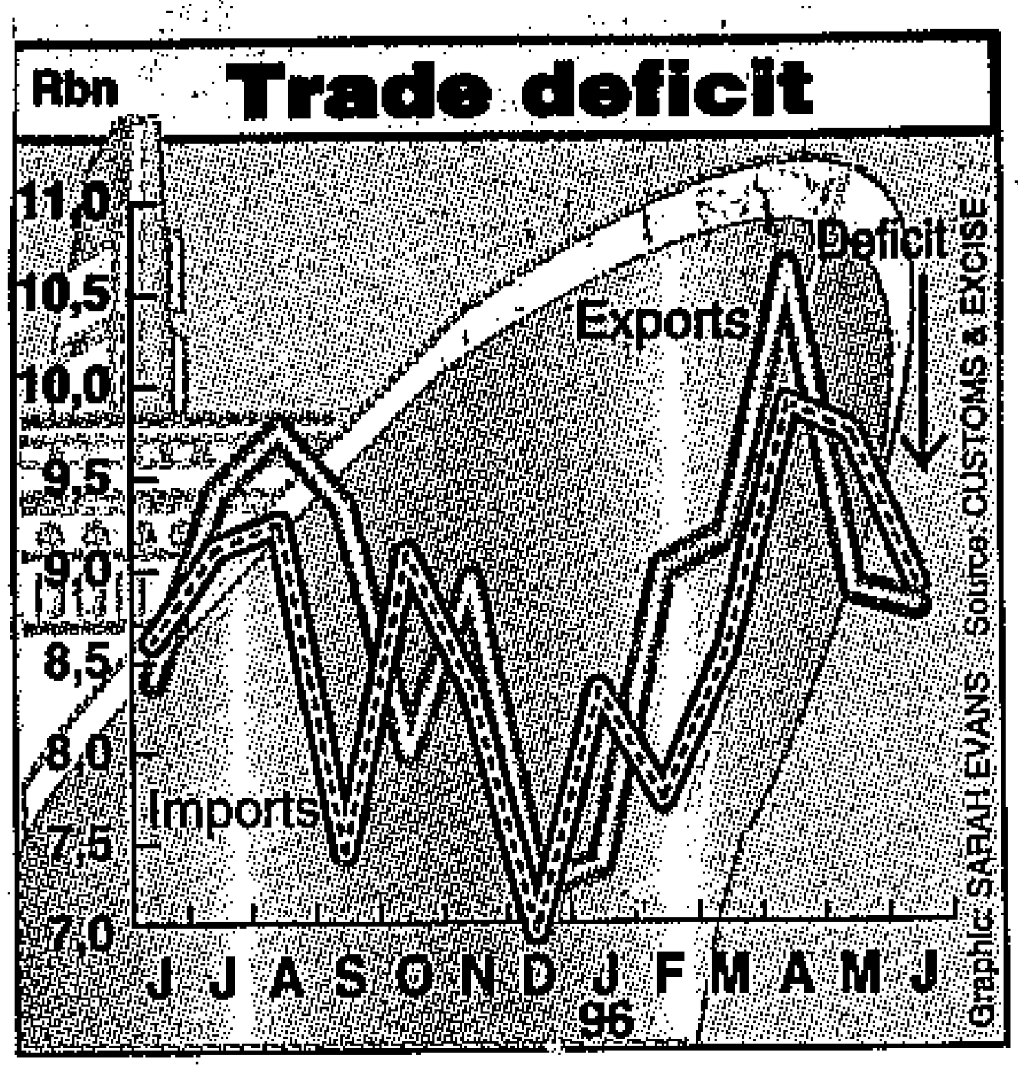
From 1985 to 1995, merchandise exports and imports increased at a faster rate than GDP; net gold exports performed poorly, with the share of net gold exports dropping to just 4,2% of GDP from 12,6%.

**EXPORTS BY CONTINENT – 1995**




**IMPORTS BY CONTINENT – 1995**






# Trade balance R27,6m in the red

Lukanyo Mnyanda (74A) BD 29/7/96

SA's trade balance remained in the red last month, showing a R27,6m deficit compared to R836,8m in May despite a big jump in gold and diamond exports and a drop in imports.

Figures released by the SA Revenue Service on Friday showed that exports had declined slightly to R8,84bn from R8,88bn but imports dropped almost R1bn to R8,86bn (R9,72bn).

Economists — who were expecting a small surplus after the unexpectedly large deficit in May — said the figures were erratic, as in past months.

"Trying to make predictions is a bit of a lottery," one economist said.

They said the figures were disappointing following worse than expected money supply and credit demand figures released on Thursday. Money supply grew 15,65% for the year to June against 13,56% in May. May's trade deficit had been attributed to the exclusion of a diamond sight in May and it was widely believed their inclusion in the June figure would produce a surplus.

SA's trade balance for the first six months of the year stood at a positive R874m compared to R1,06bn last year.

Nedcor senior economist Magan

Continued on Page 2

# Trade balance

Continued from Page 1 (74A) BD 29/7/96

Mistry said the country was heading for a current account deficit of about R10bn if the figures did not improve in the coming months.

The drop in imports was disappointing as it was an indication that SA's economy was slowing down, she said.

Transnet economist Mike Schüssler, working on a year-on-year basis, said good elements on the exports side were the huge increases in the prepared foods (52%) and mineral products categories (115%).

But the "real disappointment" was the drop in the export performance of SA's manufactured goods. According to the revenue service, exports of miscellaneous manufactured articles dropped to R121,2m last month compared with R138,5m in May. Exports of mechanical and electrical equipment dropped 26% year-on-year, according to these figures.

"These have been the good growth areas for SA's manufactured exports over the last couple of years."

Machinery imports increased 14,7% year-on-year and Schüssler said this was a positive indication that fixed investment was still going strong despite the rand's melt down. However, the revenue service figures showed a 10% drop month-on-month to June.

Schüssler said huge year-on-year drops in the imports of animal products, plants and vegetables and animal fats showed "the drought was over".

# Trade surplus surges to five-year high

CT(BR) 30/8/96 (74A)

By Christo Volschenk
ECONOMICS EDITOR

Cape Town — The trade account swung from a small deficit in June to a surplus of R2,56 billion last month, its largest in nearly five years, on the back of a sparkling export performance, the commissioner for customs and excise said yesterday.

The surplus, the biggest since October 1991's R2,7 billion, radically changes the outlook for the current account this year and has quelled fears that another Bank rate increase could be on the cards.

But analysts warned yesterday that the trade data was unreliable and said last month's performance must have been "a flash in the pan".

Their scepticism was brushed aside by the financial markets, however, which were stronger across the board.

The commissioner said imports rose from R8,87 billion in June to R11,14 billion last month. Exports jumped from R8,84 billion to R13,72 billion.

The trade surplus for the first 7 months of the year has been pushed up to R3,54 billion.

Johan Rossouw, the chief economist at Huysamer Stals, the brokerage, said that after seven months the cumulative trade surplus was already larger than last year's total surplus of R3 billion.

"Even if imports and exports cancel each other out in the last five months of the year we will still be left with a bigger surplus than last year," he said.

A spokesman for the office of the commissioner said the swing in the trade balance had not been caused by any mistake made in earlier months. In July, exports improved across all the categories.

"Exports may at last be reacting to the weaker rand, as economists predicted. This may be the start of a new trend."

One private-sector analyst complained that the huge swings in the monthly trade figures made it "almost impossible to identify the underlying trends".

Edward Osborn, a strategic economist at the brokerage Edey Rogers, called on the government to revise the way the trade figures were calculated.

The Afrikaanse Handelsinstituut said it had requested a meeting with Gill Marcus, the deputy minister of finance, to air its concerns about the reliability of the trade data.

Standard Bank's economic unit said unclassified exports and maize and fruit exports contributed the most toward last month's increase in exports.

☐ See Forward Losses, Page 23

# Mixed reaction to trade surplus

(74A)

ARG 30/8/96

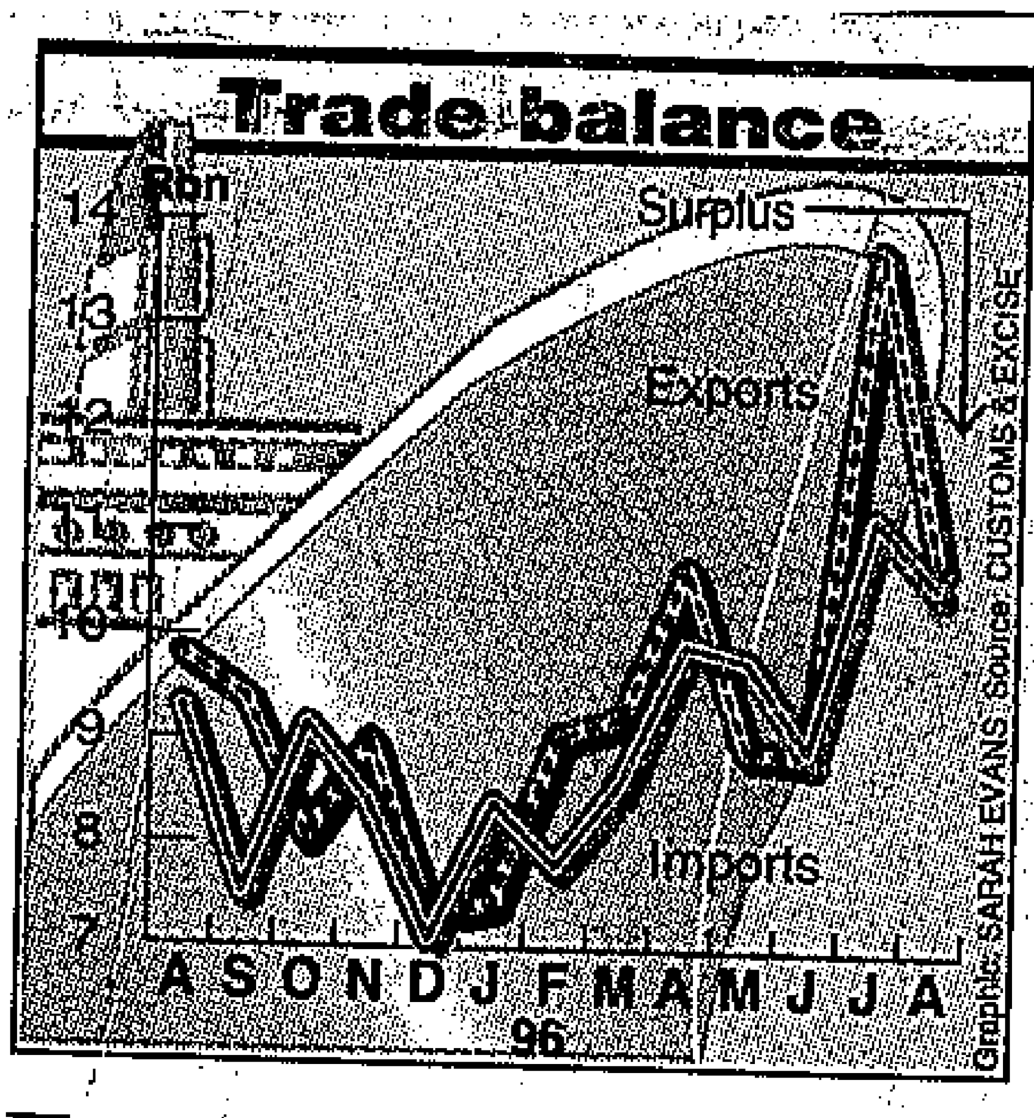
JOHANNESBURG. – Financial markets have cheered the major turnaround in South Africa's trade account in July which helped to push yields on the bond market sharply lower.

But the data drew scant applause from economists who said the indicator was unreliable and meaningless.

According to South African Revenue Service (SARS) data released yesterday, South Africa recorded a trade surplus of R2,58-billion in July, up from a R27,6-million deficit in June and more than three times economists' most optimistic forecasts of an R800-million surplus.

No explanation was given by SARS for the sudden turnaround and officials at SARS' customs and excise division were unavailable for comment.

Edward Osborn, strategic economist at Edey Rogers & Co, said the data in no way reflected trade in a particular month because of the SARS system of accumulating figures. – Reuter.




# Exports fall, but trade balance stays in black

(74A)

Lukanyo Mnyanda

BD 1/10/96

SA's trade balance remained in the black in August despite a sharp fall in exports, reducing the surplus to R132,4m from July's R2,58bn, customs and excise figures showed yesterday.

Economists, who were expecting a surplus of R500m-R1bn, were not too concerned about the figure, which they said merely reinforced the "volatility and futility" of monthly data.

However, most were encouraged by the fact that a surplus had been maintained and said this indicated SA was heading for an improvement in the current account deficit for the year.

Exports dipped 23% to R10,68bn after July's 55% rise to R13,72bn, with imports dropping 5% to R10,55bn (R11,14bn).

Continued on Page 2

# Trade balance

(74A)

Continued from Page 1

BD 1/10/96

I-Net reports that long bonds ended softer yesterday on the lower-than-expected surplus. The key R150 government bond closed at a 15,2% yield from its 15,07% close on Friday, while the E168 electricity bond ended at 15,258% from a previous 15,23%.

Economists said the fall in imports — though smaller than they would have liked — could represent the turning point as far as growth in this category was concerned. Growth had remained stubbornly high despite the rand's meltdown.

The sharp fall in exports was largely attributed to a drop in the food and beverages category, which came in at R31,1m. The Standard Bank economics unit said the figure represented a R1,2bn drop and could have resulted from a revision of July's figures.

Rand Merchant Bank treasury economist Julia Roy said despite the smaller surplus, the current account deficit in the third quarter should still be materially better than the annualised R16,4bn recorded during the second quarter.

The fall in imports was an indication that the rand's fall, high interest rates and a general slowdown in the economy were filtering through into the trade figures.

Edey Rogers consultant Edward Osborn said a comparison with July's figures would not be useful as that month's figures had been "untidy and anomalous". The figures were too volatile to have a major influence on monetary policy. He said SA was heading for another current account deficit of about R12bn.

Transnet economist Mike Schüssler said he was not "too disappointed" with the lower surplus as July's was remarkably high considering that SA had consistently recorded deficits in the preceding months.

He was encouraged by the chemical and diverse manufactured items categories, which recorded healthy year-on-year increases (29,5% and 93,5% respectively) in exports. This was an indication that SA was "slowly moving into manufacturing". The 19% growth in machinery imports showed that fixed capital investment was still strong and should improve further.

He estimated the current account deficit this year would be lower at about R8,5bn after service payments.

RISING FOREIGN DEBT

74A

## MONITORING SAFETY LEVELS

FM 11/10/96

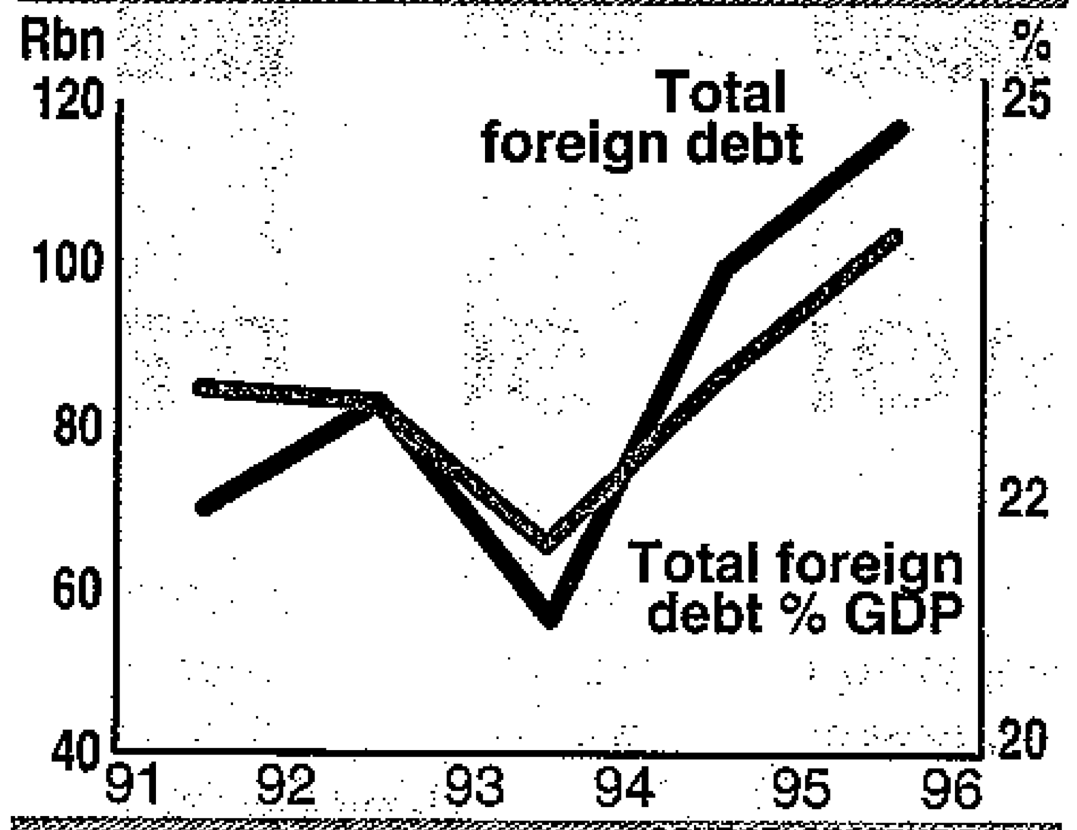
**With the** latest issues of foreign loans government is drawing from Germany and now the US, SA is primarily rolling over maturing debt. This is the best the country can do as the precarious reserve position and the uncertain currency market warns against too big a foray offshore.

Between 1991 and end-1995, total foreign debt in rands increased by 66% (25% in dollar terms). And the effective cost of rolling over maturing foreign loans is eating into the Budget — it is likely to be up R1bn on the figure originally budgeted for the 1996-1997 fiscal year.

The DM issues in October and December 1991 raised R683m. If the effective currency losses on the capital value were taken into account, by marking the bonds to market at current exchange rates, the full service costs of the foreign loan comes to R1,2bn.

According to Edey Rogers' Edward Osborn, the effective cost on the two tranches of the DM loan work out at 45,6% and 56,5% respectively in this final year, with annual averages at 31,2% and 35,1%. Just how sensitive is the SA economy now to foreign loans?

FOREIGN DEBT




SOURCE: RESERVE BANK

Osborn says the danger signal to watch for is a mismatch between short-term debt and foreign reserves.

His calculations show foreign reserves at the end of last year amounted to 36,8% of short-term liabilities. If the private banking sector's foreign balances are included, the ratio improved to 42,5%.

This compares with the 20% in Mexico at the time of the currency crisis. But the reserves of developing countries, such as Malaysia (186%), South Korea (147%) and Thailand (109%), far outstrip SA.

Taking into account the drop in reserves by more than R4bn in the first half of 1996 and a significant reduction in short-term debt, Osborn reckons the ratio of reserves to foreign short-term debt is now about 40%.

The September Reserve Bank *Quarterly Bulletin* shows foreign denominated debt at the end of 1995 and due before end-1996 as R9,8bn. That does not include rand-denominated debt. Osborn estimates total short-term foreign debt at the end of 1995 was R12,1bn.

Foreign debt as a ratio of GDP has taken a turn for the worse with the ratio approaching 25% (see graph). But this is still moderate by international standards.

The question now is how the American bond market will receive the imminent Yankee bond issue. The 1994 five-year US issue, originally priced at 193 basis points above the benchmark US bond, now carries a risk premium of only 122 points.

Since the new US-bond issue will be of a longer maturity, the same premium cannot be expected. And the market will tell when the perceived ratio of foreign reserves to short-term liabilities enters a danger zone. ■

# SA may need loan from IMF, says Stals

(74A)(Cc8)(A)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

CT (AR) 24/10/96

Johannesburg — Chris Stals, the governor of the Reserve Bank, will advise the government to apply for a loan from the International Monetary Fund (IMF) if there are no signs over the next few months of South Africa's balance of payments improving.

"We don't think we really have a crisis on our hands," Stals said on Tuesday. "We think the process is already in progress to reduce the deficit on the current account.

"Should we not get evidence (of this) in the next few months, I will certainly feel the time has come for the government to approach the IMF. If there is a need to approach the IMF, I will have no problem approaching the government to do so," Stals said.

The balance of payments shows whether money is flowing in or out of the country, either from trade or investment, and by how much. The trade side is often called the current account on the balance of payments, and it was R4,6 billion in deficit in the second quarter of this year.

The kind of loan Stals would urge the government to pursue, if necessary, would be an IMF "standby" facility, which did not carry such strict conditions for economic policy decisions taken by the government as other kinds of IMF loans.

"Normally (standby loan conditions) only make sure the correction in the balance of payments will take place," Stals said.

These comments came before yesterday's release of annual consumer inflation data for last month, which showed that the CPI rose 8,4 percent, above the high range of expectations of 8,1 percent, and up from 7,5 percent for August.

"We believe the adjustment process is already working," Stals said ahead of the data.

# Trade surplus picks up as exporters ride high

ST 27/10/96 (94A)

CURRENT ACCOUNT

By SVEN LUNSCHE

THE trade surplus continued to improve in September, benefiting from the weak rand which boosted exports and slowed down imports.

Figures released by Customs and Excise show that the monthly surplus rose from R130-million in August to R670-million in September on a rise in exports from R10,68-billion to R10,96-billion and a fall in imports from R10,55-billion to R10,29-billion.

In the year to date exports total R89,3-billion (January to September 1995: R76,84-billion) while imports stand at R85,04-billion (R73,62-billion).

The improved figures exceeded expectations — some analysts forecast a surplus of about R500-million.

The rand's 25% decline since mid-February has proved a boon to companies whose exports become cheaper on international markets.

Imports, on the other hand, tend to become more expensive with a weaker currency. This has yet to be reflected in the price of imported goods, but the preemptive buying amid fears of a further fall in the rand has clearly ground to a halt.

A breakdown of the trade figures shows that precious and semi-precious metal exports, including gold and silver, increased by R3,65-billion in September to R27,03-billion for the year, while base metal exports rose R1,72-billion to R13,38-billion.

Imports of machinery and electrical equipment rose to R27,45-billion, against R24,37-billion at end-August.

The surplus should also boost foreign exchange reserves which have halved in dollar terms since the end of 1995.

ECONOMY *Stals warns of tightening monetary policy*

# Private sector credit surges by R6bn

**CHRISTO VOLSCHENK**
ECONOMICS EDITOR

Cape Town — Private sector credit extension surged R6 billion, or 1,7 percent, to R355,37 billion last month from R349,4 billion in August, the Reserve Bank announced on Friday, prompting warnings from some economists that another interest-rate increase was looming.

The annual growth rate grew from 17,7 percent in August to 17,94 percent last month. These figures were released just a few hours after Chris Stals, the governor of the Reserve Bank, warned that monetary policy would have to be tightened if "signals of actual declines" in the growth of money supply and credit extension to the private sector were not forthcoming.

Standard Bank's economic unit warned of "factors at play which could lead to higher interest rates". The unit said "continued high growth in credit extension, further weakness in the rand and a continued tightness in the money market" all added to the pressure on the Reserve Bank to increase the bank rate.

Not all analysts agreed that the latest credit figures would lead to higher interest rates. Some economists said the acceleration in credit extension last month would result in interest rates staying at their levels longer. They ruled out an interest-rate increase in the short-term.

Johan Rossouw, Huysamer Stals's chief economist, said he expected rates to remain at the levels until after the March Budget and then come down.

Growth in the broadly defined M3 money supply aggregate dropped from 15,4 percent in August to 14,45 percent last month, but Standard Bank's economics unit said the acceleration in credit extension overshadowed the good news on the money-supply front.

Credit growth to the private sector has remained high for the past 20 months. •

# Trade surplus could ease pressure on currency

(74A) CT(BR) 28/10/96

**CHRISTO VOLSCHENK**

Cape Town — A rise in exports coupled with falling imports saw the trade surplus widen to R666 million last month from R132 million in August, which could relieve some of the pressure on the rand and capital market rates today, analysts said at the weekend.

Figures released by the customs and excise department on Friday showed that the trade surplus widened on a drop in imports and an increase in exports, bringing the cumulative surplus for the first nine months of the year to R4,26 billion — almost 50 percent above the surplus for the same period last year.

Johan Rossouw, the chief economist at Huysamer Stals, said at the weekend that the improved performance of the trade account in the third quarter should give "much-needed support to the beleagured rand and capital market rates today".

September's surplus, the third in a row, put the seal on a strong showing for the trade account in the third quarter. Standard Bank's economics unit said on Friday that "the trade account showed a significant improvement in the third quarter".

The rand and capital market rates came under growing pressure towards the end of last week. The pressure reached a high on Friday when Chris Stals, the governor of the Reserve Bank, said monetary policy would have to be tightened if money supply and credit-extension growth did not show definite signs of slowing down soon.

The news of the strong performance of the trade account came after Stals's remarks late on Friday. Exports rose 2,6 percent last month to R10,96 billion, and imports dropped 2,5 percent to R10,29 billion, the department said.

Imports dropped across almost all categories, the main exceptions being mineral products and pulp and paper. Higher international oil prices contributed to a strong increase of almost 50 percent to R1,48 billion in imported mineral products.

STATE FOREIGN DEBT (74A)

## COUNTING THE COSTS

FM 22/11/96

**For the** first time, the cost of servicing State debt has been published by the Department of Finance — in response to a request by private sector economist Edward Osborn.

A breakdown appears in the *Government Gazette* of November 15, for the period April 1 to October 31. Budgeted interest costs for the fiscal year are R33,6bn. During the first seven months they amounted to R17,8bn, about 24% up on the same period in the previous year. The cost of raising loans, mainly comprising the discount on interest bearing RSA stocks issued, was budgeted at R2,8bn. But it is already R4,7bn.

*Edward Osborn*

A Finance spokesperson explains this is because the average market interest rate at the time the Budget was drafted was estimated at 14% average for the year. But market rates have risen to nearer 16% average for the year. Hence the discount on government stock issued is much deeper.

Of particular interest, says Osborn, is the item management costs. Budgeted at R858m, it amounted to R548m in the period, almost all of it (R536m) in the month of October. This compares with only R11m in the first seven months of the previous fiscal year.

The label, management costs, is a misnomer, says Osborn. This amount is the foreign currency cost on the redemption of a foreign loan.

He explains it arose when the 1991 DM bond issue, which originally amounted to R682,5m, was redeemed last month for an estimated sum of R1 176m. The sum of R536m represents the difference between the rands received at the time and the rands required to pay back the DM400m raised by government in 1991 and a small loan of R59m also redeemed in October.

Osborn calculates that, because of the depreciation of the rand, the total service costs in rand terms on the 1991-1996 DM loan, including interest and forex capital costs, have averaged 28,9% a year, as opposed to the 10,5% coupon rate. ■

FOREIGN TRADE (A)

1997

# R3,9-billion trade surplus for October

(74A)

## *Weak rand has plus side*

ARG 3/11/94

BUSINESS EDITOR

**The effects of the rand's slide are showing clearly on the current account of the balance of payments, with the trade account swinging into a R3,9-billion surplus in October, Customs and Excise figures show.**

But economists warned that too much should not be read into the October figures, which could still be subject to revision.

"Still, if we look at the cumulative trade surplus for the year to date, the figures are encouraging," said Syfrets economist Sandra Gordon.

"We're starting to see the benefits of the weak rand."

More good news, she said, was that imports were up 23 percent for the year so far, and imports of machinery and electrical goods were still rising, suggesting that investment in the economy was still buoyant.

Oil imports fell sharply in October.

Customs and Excise figures showed exports up 36 percent from R10,95-billion in September to R14,9-billion in October. Exports for the first 10 months of the year, at R104,2-billion, were up 23 percent on year-ago levels and imports totalled R96,04-billion, leaving the cumulative surplus at R8,1-billion for the year so far.

Economists attributed part of the export surge in October to strong diamond sales.

# Trade deficit rises in spite of rand's fall

(744)

Simon Barber

BD 11/12/96

WASHINGTON — In spite of the rand's devaluation, SA's trade deficit with the US reached a record $651m in the first nine months of this year, representing a 62% increase of the equivalent figure for last year according to new statistics from the commerce department.

SA's exports of all commodities, including gold, to the US in the first three quarters of the year had a US customs value of $1,72bn.

For September, US imports from SA were worth $190m, while SA bought $283m worth of goods from the US.

SA's deficit for the first nine months easily surpassed the figure of $541m recorded for the whole of last year.

Comparing the nine-month figures for this year and last year, US exports to SA had increased 16%, while SA's sales to the US had risen only 4%.

SA's performance was hampered by a period-on-period decline in the value of platinum group and other precious metals and diamonds exported to the US from $662m to $637m.

Iron and steel exports were also flat, and increased by less than $9m to $259m.

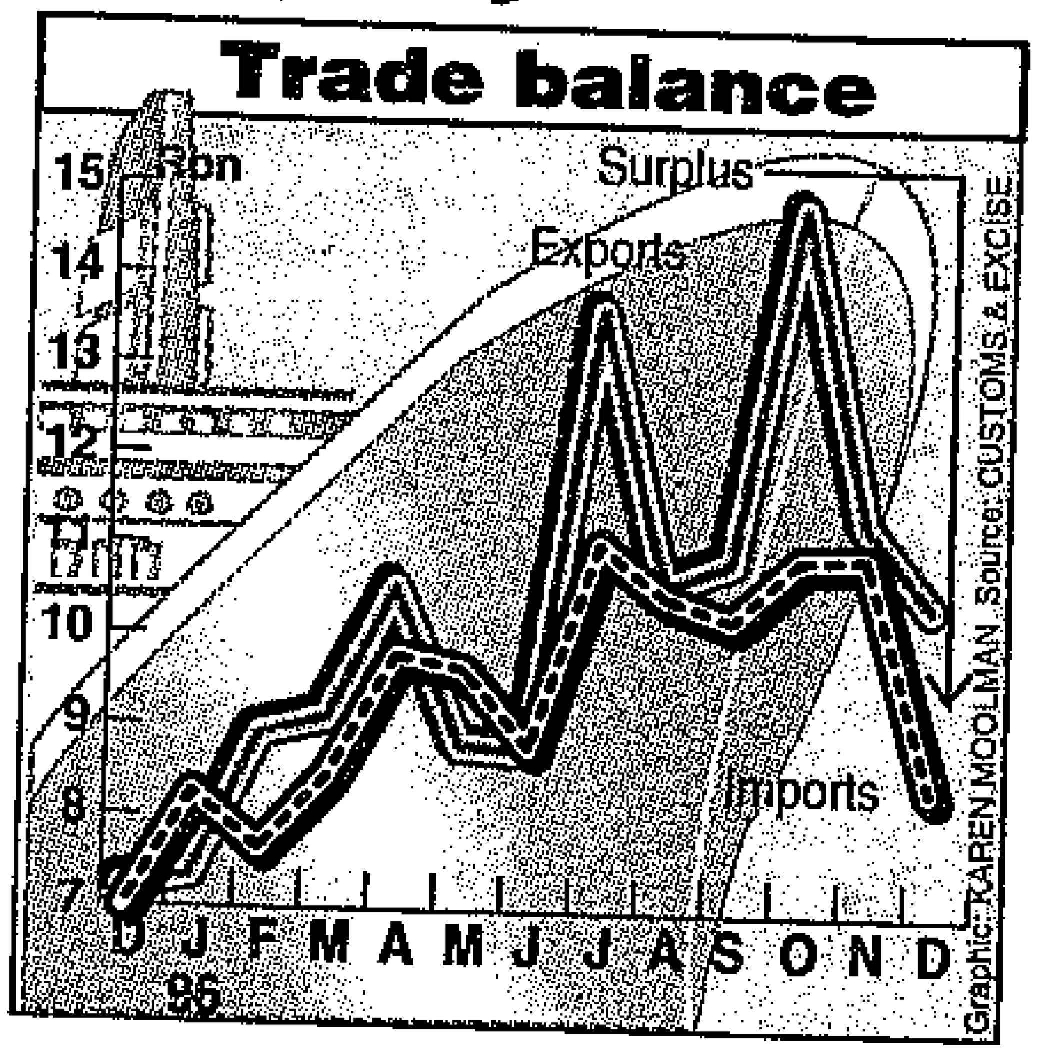
By contrast, SA's imports of US capital goods — industrial machinery and transport equipment — were up sharply. Imports of US goods in chapter 84 of the harmonised tariff schedule, which includes non-electrical heavy machinery, jumped from $479m to $622m.

# Healthy December trade surplus for SA

BD 24/1/97

(74A)

Lukanyo Mnyanda




A 23% drop in imports, mainly due to the rand's fall last year, helped SA produce a healthy R2,04bn trade surplus in December compared with November's R378m, customs and excise figures released yesterday showed.

Economists were pleasantly surprised with the figure, which they said suggested the deficit on the current account of the balance of payments last year would be about R10bn.

They had been expecting a more modest surplus of about R750m and believe the December figure will go a long way towards realising Reserve Bank governor Chris Stals's estimate of a R4bn-R5bn deficit for this year.

However, the better than expected trade data failed to inspire the bond market, with the government R150 losing some ground to close at 15,51% compared to 15,50% on Wednesday while the rand remained stable to close 4,6245 from 4,6225.

Imports slumped to R8,46bn from R11,03bn in December while exports slowed at a more modest rate to R10,49bn from R11,41 in November.

December's figure pushed the cumulative surplus for last year to R10,58bn compared to just R4,88bn in 1995. This was the result of a 24% increase in exports for the year and a

Continued on Page 2

## Trade surplus

(74A)

BD 24/1/97

Continued from Page 1

slower 19% growth rate for imports.

Transnet economist Mike Schüssler said SA's improved surplus looked less spectacular in dollar terms. He did not believe that the slowdown in import growth last year would be maintained this year, and pointed to increasing volume figures from Portnet over the last two months as evidence.

The Standard Bank economics unit said the R2,6bn fall in imports was the sharpest in almost 15 months and had largely offset the significant drop in exports. "This figure was above the most optimistic market forecast," it said.

Although import figures usually fall in December as a result of seasonal factors, last year's drop was much larger than expected. It was due mainly to the machinery and mineral product categories which together contributed R1,5bn to the monthly drop.

Old Mutual economist Erika Prinsloo said the huge fall in imports could be attributed to the long awaited effects of the rand's depreciation finally filtering through, but warned the figures were volatile.

Nevertheless, the continuing effects of the rand's fall, combined with a slowdown in import demand as the economy cooled, pointed to a more rosy outlook for the year ahead. She was optimistic that a current account deficit of as little as R2bn was achievable this year. Standard Bank expects it to be about R3,5bn.

# Meeting of minds on EU-SA trade deal

CT(BR) 28/1/97 (74A)

**PETER FABRICIUS**

Johannesburg — Long-delayed negotiations between the European Union and South Africa over the creation of a free trade area got off to a positive start at the weekend, with both sides reporting that sharply different opening positions had converged.

Although it was too early for trade concessions, there had been a "meeting of minds", Jean Claude Boidin, head of the EU's SA taskforce, said in Pretoria yesterday. The pace of negotiations would now accelerate considerably, a joint statement indicated.

The two sides plan to meet again in Brussels next month to try to get South Africa partial membership by April of the Lomé Convention, the EU's development partnership with the poor countries of Africa, the Caribbean and the Pacific (ACP countries). This is likely to be the first concrete achievement of the negotiations.

South Africa, which originally applied for full Lomé membership, had confirmed its intention to seek qualified membership, which would exclude it from one-way duty-free access to the EU market enjoyed by ACP countries, it emerged yesterday.

Both sides are hoping to conclude negotiations for joining Lomé before April 24 when the ACP/EU ministers meet to consider a special protocol for South Africa's qualified membership which will allow it the right of companies to tender for EU projects in ACP countries.

The joint statement removed any doubts in the EU of South Africa's commitment to the concept of a free trade area.

# SA's export base is still too narrow

ARG 5/2/97

(74A)

THE ECONOMY MIDWEEK

OCKIE STUART

**South Africa's balance of payments can be seen as the economy's Achilles heel. Both the current and the capital accounts from time to time pose problems, forcing the authorities to introduce growth-curbing measures.**

Structural problems in the economy show up in the current account. For instance, the reluctance of manufacturers to exploit world markets vigorously makes the country heavily dependent on primary product exports to earn foreign currency.

The prices of these products – mainly from mining and agriculture – are determined on world markets, leaving South Africa vulnerable to world trends. Also, the size and quality of agricultural crops are mostly determined by climatic factors.

Because of policies kept in place by previous governments, the economy has become extremely capital-intensive. Consequently, as soon as it expands, the demand for imported capital goods becomes keener. If this increase in demand is not matched by an increase in exports and/or inflows of capital, the overall balance of payments comes under pressure.

Regarding additional exports, the export base of the country is still too narrow. The share of manufactured goods is too small and gold production is declining. Also, the price of gold is under pressure, with central banks keen to cut the proportion of their foreign reserves held in gold.

The capital account of South Africa's balance of payments was a major problem until 1994 because of the sanctions imposed on the previous government. After 1994, the country witnessed an exceptionally large net inflow of capital. But unfortunately most of it was money which could be taken out again at short notice.

In 1996, there were outflows of capital and also a sharp increase in imports. This obviously led to a fairly large deficit on the current account of the balance of payments and a substantial drop in the level of foreign reserves. As a result, the rand depreciated, money market conditions tightened and short-term interest rates were raised.

So the current slowdown in the tempo of economic activity outside agriculture was indirectly caused by a tight balance of payments.

This year, foreign investment has picked up. This has had a positive effect on the rand. Foreign investment in the bond market has been vigorous, but the type of investment needed is still not coming in.

The latest trade figures show that the trade surplus increased dramatically in the fourth quarter of last year,and important manufactured export categories posted substantial growth.

Exports grew by about 4 percent between the third and the fourth quarter of 1996. At the same time, imports dropped by nearly 5 percent. These developments suggest that the current account deficit could be halved in 1997. Together with more optimism in the economy on the part of foreign investors, this suggests that the balance of payments is likely to be less of a constraint.

Fixed investment directed towards exports is expected to show sharp growth this year.

So the structural changes which are so desperately needed in the export pattern seem to be underway. Secondly, the capital account should benefit from the change in foreign investor sentiment. Finally, the currency slump has provided business with a golden opportunity to become more competitive and to negotiate export contracts on more favourable terms.

■ *Ockie Stuart is the director of the Stellenbosch Bureau for Economic Research*

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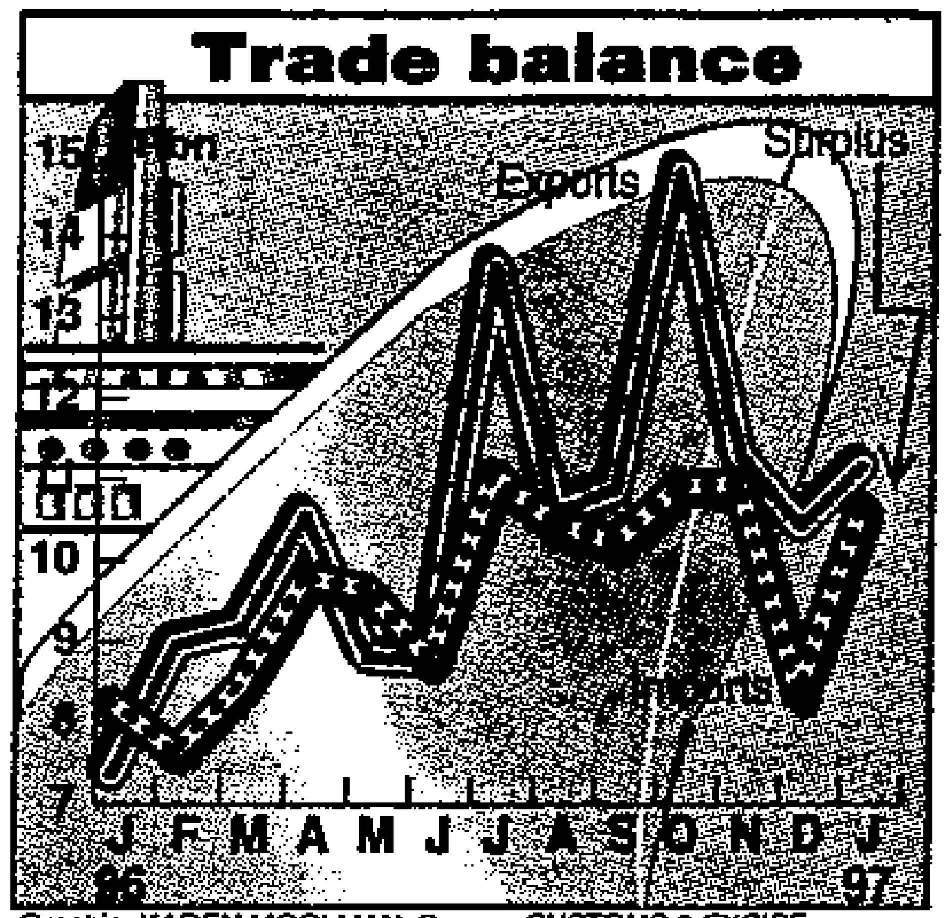
# Trade figures show SA economy is still full of life

(74A) BD 28/2/97



Graphic: KAREN MOOLMAN Source: CUSTOMS & EXCISE

Greta Steyn

THE SA economy has remained surprisingly strong despite last year's interest rate hikes, with trade booming and economic growth respectable.

Customs and excise's trade figures for January, and the Central Statistical Service's gross domestic product (GDP) statistics, both released yesterday, suggested the economy was still full of life despite last year's confidence shocks. GDP growth in the fourth quarter of last year was 3,3% — marginally up on the third quarter's figure. Nonagricultural GDP bounced back, with a growth rate of 2,5% from less than 1% in the third quarter. All GDP figures are quarter-on-quarter seasonally adjusted and annualised growth rates, unless otherwise stated.

Customs and excise figures for January showed imports and exports going strong. Imports were up a hefty 27% to R10,73bn in January from December, and about 29% up on the same month last year. Economists said demand for imports had held up despite the weak rand and high interest rates, a sign of the economy's resilience.

One of the reasons for the increase in imports in January from December was a surge in machinery imports, evidence of fixed investment spending. The Standard Bank's economics division said demand for capital goods was usual at the beginning of the year after the December lull as plants repaired and replaced old machinery.

Exports were also up in January from December, rising a more modest 7% to R11,25bn. BoE Natwest economist Nick Barnardt pointed out that the increase from last year was more than 50%. "Import and export volumes are both rising, which suggests the economy is holding up well. The next upswing is around the corner," he said.

The Standard Bank pointed out that, on a year-on-year basis, exports of mineral, vegetable, chemical and base metal products had each risen more than 50%.

Continued on Page 2

## Economy

(74A)

Continued from Page 1

BD 28/2/97

The high imports took their toll on the trade surplus in January, which at R517m was lower than the market had expected and well down on December's R2,04bn. However, economists were not worried about the lower surplus. Rand Merchant Bank's Julia Roy pointed out that it was the seventh consecutive monthly trade surplus. Nevertheless, the rand weakened slightly on the news, as rumours of a huge surplus had been flying thick and fast.

Reserve Bank governor Chris Stals said earlier manufactured exports were buoying economic growth. The GDP statistics showed manufacturing output was up 2,2% in the fourth quarter after falling in the third. Mining, which had a disastrous year on the whole, also notched up an increase.

The overall growth rate for the year came in at 3,1%, in line with expectations. Roy said the fourth quarter performance had dimmed fears that overall growth this year could fall below 2%. Economic growth this year will be negatively affected by the fact that agriculture will not contribute to growth. Even if agricultural output this year is as good as last year, there will be no noticeable positive contribution to the growth rate. The economy's ability to grow this year depends on nonagricultural output.

Last year agricultural output grew 26% in real terms, while trade was the second healthiest category. However, in 1995, manufacturing was the main contributor to total growth.

# Swing into trade deficit astonishes economists (74A)

Lukanyo Mnyanda BD 1/4/97

SA's trade balance swung back into the red in February, recording a R451,6m deficit compared with January's R517,2m surplus after seven consecutive months of surpluses, following decreases in imports and exports.

Economists, who were astonished at the customs and excise figures released last week, warned against reading too much into one month's figures, which tended to be volatile.

Although they were expecting a surplus close to R1bn, the economists said more emphasis should be given to the positive trend of previous months which saw SA record some huge surpluses. The situation should revert back to those trends in coming months.

They also said that the positive effect of the rand's depreciation last year should continue feeding into the figures, with exports expected to return to growth levels of the past few months. None of the economists had considered revising their forecasts for this year's current account deficit. Economists polled during the first few months of the year have made forecasts ranging from R2bn to R5bn.

February's exports fell 21% to R8,83bn (R11, 2bn), while imports fell to R9,28bn from R10,7bn.

Standard Bank's economics unit said negative numbers in some categories, as a result of downward revisions, were the main reason for the drop in imports. Machinery product imports were revised downwards by at least R1,3bn, with chemical products and special classification provisions — made up largely of motor vehicles parts — coming in for sizeable revisions.

"This basically means that the rise in imports during January was much smaller than the figure originally released by customs and excise. This implies the surplus on the trade account in January was significantly higher than R517m." The bank said the huge revisions were a concern, but believed further positive effects of the rand's depreciation last year would start flow-

Continued on Page 2

# Deficit (74A)

BD 1/4/97

Continued from Page 1

ing into the figures again.

EW Balderson economist Mike Schüssler said February's trade date — despite the surprising deficit — had shown continuing signs of further growth in manufacturing exports.

"The good news in exports is that the top five categories showing export growth are all manufacturing categories. The sixth best category (stone and glass) is also, at least, a semi-manufacturing category."

Food and beverages, miscellaneous manufacturing and shoes and textiles were some of the categories to show impressive growth, despite the sharp fall in exports overall.

Old Mutual chief economist Dave Mohr said the trade data which "looks alarming on the surface" might be contribute to Reserve Bank governor Chris Stals maintaining tight monetary policy. But he also warned against too much doom, saying some export categories such as coal and diamonds should continue to benefit from increasing international demand.

# R1,98-bn trade surplus in March

ARG 26/4/97 (74A)

**Johannesburg – South Africa's trade account swung into positive territory in March after a disappointing R452-million deficit in February**

Customs and excise figures released yesterday showed exports outstripped imports by R1,98-billion last month, setting the economy back on track for a reduced current account deficit in 1997.

Exports increased 24 percent to R10,95-billion, while imports declined to R8,97-billion from R9,28-billion in February.

The massive surplus would please the market, as most analysts had forecast excess exports of between R500-million and R1,5-billion.

The cumulative trade surplus for the first three months of the year jumped to R2 045-billion.

South Africa's export performance had been relatively disappointing this year, with the surprising deficit in February virtually offsetting the reasonable R517-million surplus in January.

Europe remained South Africa's most active trading partner, with exports of R8,5-billion and imports of R12,76-billion.

Exports to Asia amounted to R6,2-billion and sales to Africa grew to R4,4-billion.

Vegetable-product exports in March totalled R607-million, up on the previous month. – Sapa

# Trade balance surplus

(74A) ST 27/4/97

SOUTH Africa's trade balance moved back into a healthy surplus in March after a deficit in February, restoring confidence in a sharply reduced 1997 current account deficit.

SA Revenue Service figures released on Friday showed a trade surplus of R1.98-billion from February's R452-million deficit. Exports increased 24% to R10.95-billion, while imports declined to R8.97-billion from February's R9.28-billion.

The massive surplus pleased the market, as most analysts had forecast a surplus of just over R1-billion. The cumulative trade surplus for the first three months of 1997 now stands at R2-billion.

On the export side there were healthy increases in machinery, base and precious metals, transport equipment and chemicals, underlining a reported pick-up in manufacturing sales. — *Sapa, Reuter*

# March trade balance in the black by R1,98bn

BD 29/4/97 (74A)

Greta Steyn

SA's trade balance swung back into the black in March, notching up a surplus of R1,98bn from a deficit of R452m in February, customs and excise figures released on Friday showed.

Exports surged 24% to R10,95bn and imports fell about 3% to R8,97bn between February and March, much to the relief of the markets, which were in a jittery state after bearish comments by Reserve Bank governor Chris Stals on Friday morning.

The sharp improvement in the trade balance confirmed economists' suspicions that the monthly data was unreliable. They said the quarterly figures were probably a better indication of the trend. At just over R2bn, the trade surplus for the first quarter was no cause for concern, especially as it appeared exports and imports were moving in the right direction. Some economists have maintained their forecast for the current account deficit for the year at a relatively low R4bn — about half of last year's deficit.

The Standard Bank's economics division said imports had fallen for two consecutive months. It said that the fall in the two largest import categories, machinery and mineral products, made a major contribution to the import slowdown in March.

The bank said about R200m had been shaved off machinery imports, continuing the fall which began in February. For the quarter as a whole, machinery imports had risen about 8% from the same period last year. This category — a good indicator of economic activity — was growing at twice that rate in the first quarter of last year.

The bank said precious gems and metals were, as expected, the chief contributors to the rise in exports. All the major export categories had risen after their dismal performance in February.

Rand Merchant Bank economist Julia Roy said she had not revised her current account forecast from a R4bn deficit for the year. "The year got off to a disappointing start, but the March figure has gone some way towards supporting the view that the current account will improve."

Equisec economist Dawie Roodt estimated the deficit for the first quarter of the year at about R2,5bn. This compared with almost nothing in the last quarter of last year, he said.

# First-World debt creeps upward

(74A)

It's a dangerous sign, say economists

FM 23/5/97

**One of SA's** biggest obstacles to growth is its level of government debt — about 56% of GDP this fiscal year. But many developed countries are worse off. Their debt is often cheaper than SA's, but as a percentage of GDP it has nevertheless risen steadily over the past 20 years (see chart).

It's a bad sign, say economists Paul Masson and Michael Mussa. They argue budget shortfalls shouldn't be persisting during peace time, when governments traditionally pay off debts and save for the future.

They blame it on welfare payments, which sent State spending "skyrocketing." US health and welfare spending more than doubled between 1942-1992.

It's partly a symptom of becoming an "old" country. Low birth rates mean relatively more people are retiring than are entering the economy. Developing countries tend to experience the opposite.

The researchers also blame latter 20th Century trends like higher inflation, structural unemployment (a mismatch between the skills employers need and the skills workers have to offer) and a decline in productivity from the early Seventies.

**STATE DEBT**
**AS % OF GDP**

| | 1980 | 1994 |
|---|---|---|
| Canada | 44,3 | 95,6 |
| France | 20,8 | 48,4 |
| Germany | 31,8 | 49,8 |
| Italy | 57,8 | 129,0 |
| Japan | 52,0 | 83,3 |
| South Africa | 36,8 | 48,6 |
| UK | 49,6 | 46,0 |
| USA | 43,6 | 68,9 |

SOURCE: IMF, RESERVE BANK

But the fact that countries like the US have more debt than SA is no consolation. SA has a First-World debt burden but few welfare gains to show for it. Developing countries, say the researchers, should typically show lower debt burdens than industrialised ones. It means SA is effectively enjoying the worst of both worlds. ■

ARG 28/5/97 (74A)

# Trade surplus drops sharply

**Johannesburg – South Africa's monthly trade surplus declined in April to R725 million from the surplus of R1,98 billion in March.**

Customs and Excise figures released yesterday showed exports increased by 3% last month to R11,29 billion, while imports shot up 18 % to R10,565 billion (R8,97 billion).

The surplus was below analysts' expectations, who had predicted an overrun of just over R1 billion.

The cumulative trade surplus for the first four months of the year amounted to R2,77 billion, slightly up on the surplus of R2,44 billion over the same period in 1996.

Trade with other African nations and Asia have increased markedly in 1997, with exports to Africa rising to R5,886 billion so far this year compared to R4,88 billion last year. Exports to Asia had grown to R8,84 billion (R7 billion). – Sapa-I-Net

# US trade surplus with SA falls dramatically

(74A)

Simon Barber

BD 3/6/97

WASHINGTON — America's trade surplus with SA, which reached record levels last year in spite of the rand's plunge against the dollar, fell dramatically in the first quarter of this year against year-earlier figures, US commerce department statistics show.

The 28% fall — from \$299m to \$217m — was almost entirely accounted for by a 10% decline in the value of SA imports from the US. SA exports to the US rose less than 1%.

First-quarter US exports to SA were tallied at \$714m (\$792m). SA exports to the US rose from \$493m for the first quarter of last year to \$497m.

Much of the drop-off in SA purchases from the US came in the tariff categories covering heavy industrial machinery and electrical equipment, which showed quarter-on-quarter declines of 15% and 13%, respectively.

A 15% decline in the value of US purchases of commodities in the category including platinum group metals, diamonds and gold — from \$206m to \$176m — hampered growth of SA exports to the US. Platinum group metals were by far SA's largest export to the US. Iron and steel exports were unchanged at \$66m.

But there was a significant rise in US imports of SA chemicals, which totalled \$38m, nearly double the figure for the first quarter of last year.

The SA clothing industry, which had been focusing on the high-end US market, also appeared to be meeting with modest success. First-quarter imports of SA clothing to the US rose to \$16m, up from \$11m a year ago.

Total SA exports to the US for last year reached \$2,3bn, while US exports to SA hit \$3,1bn.

# Exports rise as domestic demand cools

(74A)

BD 13/6/97

Greta Steyn

MANUFACTURING is coming to the rescue of a faltering economy as producers go for exports, with output soaring to a record high in April.

Central Statistical Service figures released yesterday showed output rose about 12% between March and April, while the increase compared with April last year was 7,6%.

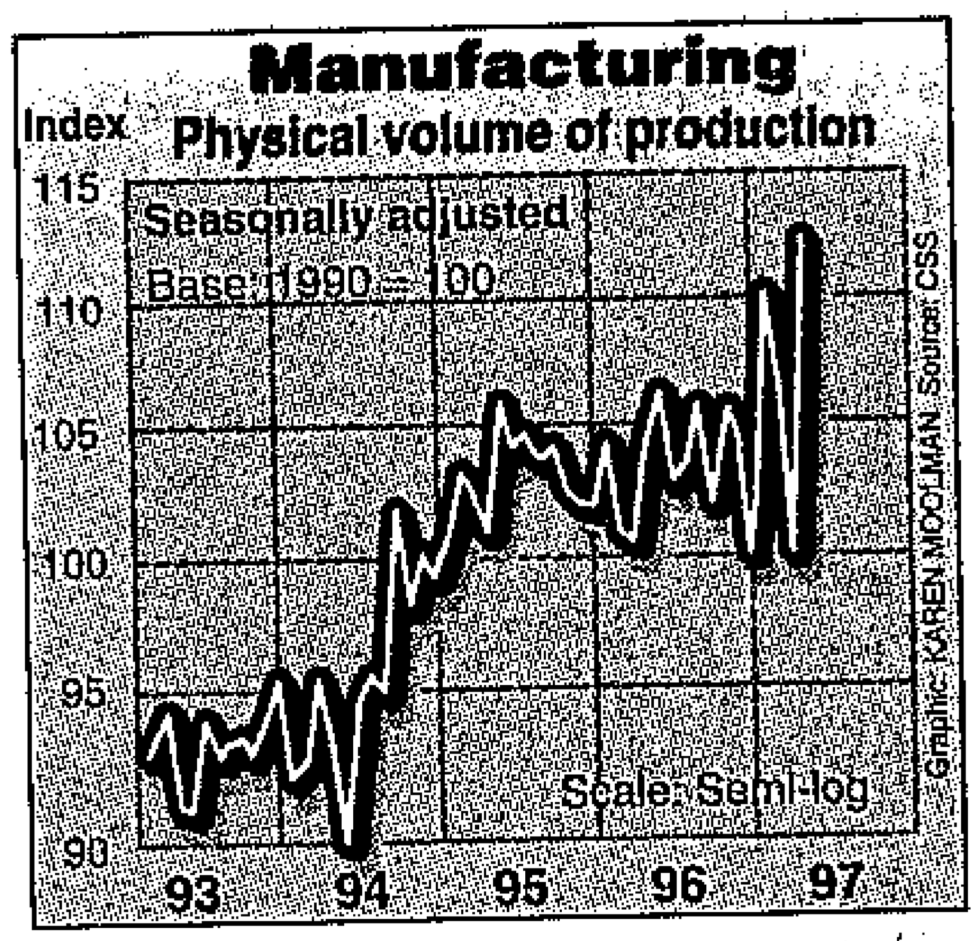
The new peak came after a strong first quarter and confirms the view that exports are taking up some of the slack as domestic demand cools.

The figures are seasonally adjusted, with public holidays explaining some of the recent volatility. The CSS said for the three months to April, output rose 1,5% against the previous three months. The increase was due mainly to higher basic iron and steel production, nonelectrical machinery (thought to be mining equipment for export to Africa), and "other" chemical products.

The positive sentiment generated by the figures was dampened by the release of manufacturing employment data. Sapa reports employment in the sector fell 0,5% between January and February. This follows a year of falling employment in manufacturing.

Economists said April's surge in manufacturing output was unlikely to be repeated. They were worried the rand's relative strength would take its toll. But they were nonetheless encouraged by the numbers.

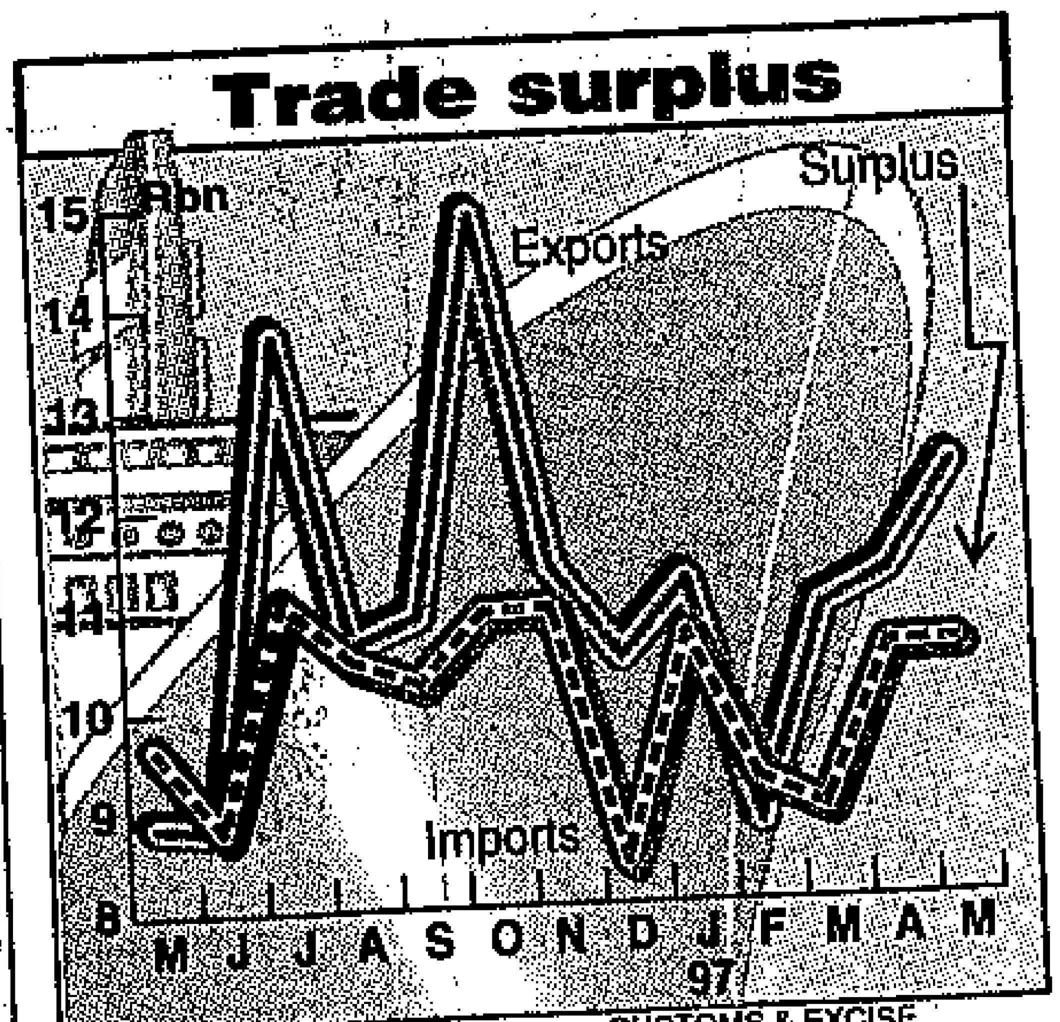
Standard Bank economist Nico Czypionka said the supply side of the economy was picking up steam just as the demand side was slowing down. The Reserve Bank wanted to see a better balance. "The result will be an improvement in the current account of the balance of payments, and in liquidity conditions in the money market."




Société Générale Frankel Pollak economist Mike Brown said one reason why manufacturing was buoyant was the fact that fixed investment "has been growing at three times the rate of gross domestic product for the past four years."

Brown said it was a typical feature of the business cycle that a slowdown in gross domestic expenditure led to an increase in exports. "But there is some concern about the sustainability, because of the rand's relative strength."

Nedcor economist Dennis Dykes said he believed exporters' margins were "not that great", noting that large exporters such as Sappi and Columbus Stainless Steel were battling. It appeared manufacturing exports were being driven more by the weak local demand conditions than price advantages resulting from the exchange rate.




Graphic: KAREN MOOLMAN Source: CUSTOMS & EXCISE

# Exports push trade surplus to R1,75bn

(74A)

**Belinda Beresford**

BD 27/6/97

A SHARP hike in exports helped push SA's trade balance for May to a surplus of R1,75bn, almost R1bn higher than the previous month, customs and excise figures showed yesterday.

Exports for May rose to R12,32bn from R10,57bn for April. Imports were stable at R10,57bn.

The cumulative surplus from the beginning of the year to May was R4,5bn — almost 70% higher than the same period last year.

Economists said the figures were better than expected — the consensus had been about R1bn — and boded well for reserves.

FBC Merchant Bank economist Hania Farhan said the overall figures were very helpful for the balance of payments. Exports to date were up 21% on last year, whereas imports were up only 13%. "The export growth is not just in traditional categories like minerals and metals, but also in chemicals, plastic, paper and machinery. It is a very encouraging trend indicative of manufactured exports getting stronger and selling more," she said.

Standard Bank's economics division said the rise in manufacturing exports made sense as manufacturing output had remained high and domestic demand had been slowing. Vegetable product exports showed a cumulative year-on-year change of 69% — the fourth successive month this category had registered gains.

However, economists said the strengthening of the rand this year could begin to have a negative effect on the trade balance in a few months.

Continued on Page 2

## Exports

(74A)

BD 27/6/97

Continued from Page 1

Farhan expected the trade surplus to begin to fall in the fourth quarter as the lagged effects of the strengthening rand filtered through. She forecast the trade surplus for the year at about $2,9bn and year-end foreign exchange reserves of about $4bn.

Econometrix economist Tony Twine expected the current account to be just in balance for 1997, and surpluses to be on average around the May level. The stronger rand meant manufacturers were facing a margin squeeze, which could lead to a cut in exports. Alternatively manufacturing exporters would have to accept lower prices, since they were predominantly price takers in the international market.

Twine said the trading account needed to be at its May level or better to prevent a drain on foreign exchange reserves. The current account is composed of the trade account plus the services account — the latter is running at a monthly deficit of about R1,5bn.

# Exports ignite bullish trend

CT (PR) 27/6/97 (74A)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — A surge in exports pushed the surplus on the trade account to R1,75 billion in May from R725 million in April, the commissioner for customs and excise said yesterday.

The May surplus of R1,75 billion was just short of March's R1,98 billion, the highest surplus recorded so far this year.

The larger-than-expected surplus in May pushed the cumulative surplus for the first five months of the year to R4,5 billion, almost 70 percent higher than in the same period last year.

The export sector continued to benefit from last year's rand depreciation. In the first five months of the year, exports were 20 percent higher than in the same period last year.

Standard Bank's economics unit said: "The trend for exports remains strongly upwards while imports have been dropping since the beginning of the year. The downward trend in imports reflects the slowdown in the economy."

Nancy Myburgh reports from Johannesburg that, although monthly trade data is widely seen as suspect for its frequent heavy revisions in subsequent months, yesterday's strong data still fuelled the bond market's recent strength, helping push benchmark bond yields to their best levels in a year.

The yield on the R150 government bond traded as low as 14,39 percent yesterday, its best since July last year, according to Bloomberg data. But it retraced slightly to 14,41 percent in late trade, from 14,495 percent late on Wednesday.

Tuesday's better-than-expected data on inflation, bonds' enemy, had already boosted the outlook for bonds, dealers said.

Matt Getz reports from Johannesburg that the industrial index finally caught up with the rest of the market yesterday, as it joined the financial and all share indices at all-time highs.

The all share index gained 48,7 points to 7 402,4 and the financial index rose 63,6 points to 10 187,6, both setting new records for the third day in a row. The industrial index added 72,4 points to 8 472,3, beating the previous record of 8 739,3.

"The whole market is positive," said one dealer. "There's been a bull run on bonds and the rand has been encouragingly firm. People are beginning to realise there won't be a huge outflow of funds (after exchange controls are relaxed next week)."

But dealers cautioned that the market would have to fall sometime. "You can't go up in a straight line," said one dealer. "I believe there will be some profit talking next week and then it will continue."

# Human rights looming larger in EU trade deals

(74A)

**Some European Union countries are becoming more asssertive on the subject of human rights, and this could hold implications for Africa, writes Tim Cohen in London**

BD 22/7/97

CHIRAC

AFRICAN countries are facing the prospect of human rights clauses featuring more prominently in future trade agreements with European countries, according to foreign policy experts in Europe.

The moves are likely to follow a more strident attitude which is being adopted by some European countries on the subject of human rights, notably the UK, and potentially significant changes being made to the administrative rules of the European Union (EU).

But foreign policy experts are unsure whether the election of governments that are inclined to the left in all but two EU countries would result in fundamental changes to the way trade agreements are agreed upon, or whether the new mood is likely to be more vocal than actual.

A poignant example of this dichotomy in foreign policy was provided last week by "new Labour" British Foreign Secretary Robin Cook, who announced that human rights would henceforth be "at the heart" of British Foreign policy. On the same day, however, the British government then announced that it would proceed with the contentious sale of 16 British Hawk jet fighter aircraft to Indonesia.

The Europe expert at the Royal Institute for International Affairs, Ed Smith, said it would be easy to read too much into Cook's statement, which was more a reaction to several domestic scandals than a portent of changes likely to come about throughout the continent.

The new British government was reacting to public disquiet over disclosures that British companies had sold tons of arms to Iran, and to the series of scandals involving former defence procurement minister Jonathan Aitken, Smith said.

European countries in general had not placed human rights considerations higher than such other factors as winning trade and investment opportunities. This was exemplified by the highly controversial recent trade mission of French President Jacques Chirac to the People's Republic of China, he said.

But potentially more significant were changes in the decision-making mechanism of the EU, Smith said.

Until now, unanimity had been required for major decisions, he said. But recent changes which were adopted at the Amsterdam conference now allowed for the possibility of "constructive abstention".

This effectively meant that proposals would be implemented even if a minority of countries did not agree. These countries would "constructively abstain", thus allowing the proposals to be implemented even though they did not actively support them.

In the past, because unanimity was enforced, the EU tended to operate on the basis of the "lowest common denominator" with all countries moving at a pace dictated by the least interested in human rights.

In practice, former colonial powers tended to look after their favoured, former colonies by vetoing decisions which might affect these countries negatively, but this protection might no longer be the norm.

This change might become especially significant in negotiations for the restructuring of the Lomé Convention, the centrepiece trade agreement between the EU and African countries, which is up for renegotiation soon.

One change strongly on the cards was the inclusion of clauses in trade agreements prohibiting child labour.

Britain had in the past routinely vetoed the inclusion of these clauses on the basis that they could be used to surreptitiously impose trade barriers, but it was highly unlikely that Cook would veto these clauses, Smith said.

# Trade surplus hits record high

CT (BR) 30/7/97 (74A)

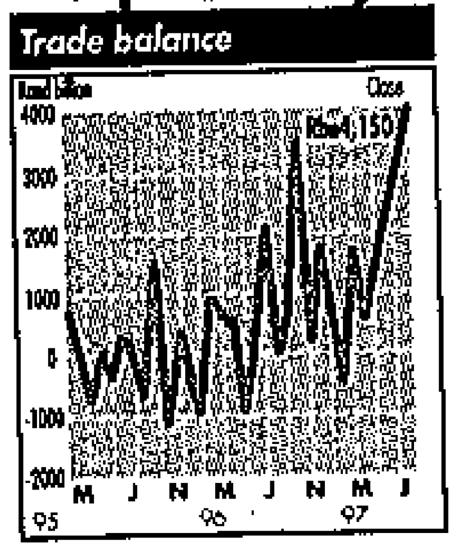
**Christo Volschenk**

Cape Town — Strong export growth and slowing imports led to the upsurge of the surplus on the trade account to a record high of R4,1 billion last month from R1,8 billion in May, Daan Colesky, the commissioner for customs and excise, said yesterday.

Exports grew by 20 percent (not annualised) between the first and the second quarter, while imports crept up only 6 percent over the same period.

Total exports last month amounted to R13,7 billion. Imports dropped to R9,6 billion after administrators at customs and excise failed to clear a few consignments of crude oil in time for inclusion in the June import figure.

Colesky warned that this administrative error had pulled down June's import figure by R1 billion, which would be added to July's import figure.




Chantal Friedman, the economist at stockbrokerage Barnard Jacobs Mellet, said: "Exports are locked in a strong upward trend, while imports continue to slow. These trends have resulted in a cumulative surplus of R7,7 billion in the first six months of the year, compared with only R1,9 billion in the same period last year."

Erika Prinsloo, an Old Mutual economist, said the export of manufactured goods "impressed by jumping 24 percent from the first to the second quarter". Analysts ascribed the performance of manufactured exports to growth in industrial countries, last year's rand meltdown and strong commodity prices.

Consumer inflation dropped 8,8 percent last month, a nine-month low, from 9,5 percent in May, in spite of a rise in food inflation from 11,7 percent in May to 12,8 percent last month, the Central Statistical Service said yesterday.

Subdued month-on-month rises in all the sub-indices of the consumer price index (CPI), except the food index and a drop in the petrol price, combined to pull consumer inflation below the 9 percent level and lead to renewed speculation in the financial markets about the timing of a Bank rate cut.

Johann Els, another Old Mutual economist, said the figure was "good news" but cautioned against being "too hopeful of a cut in the Bank rate in the next few weeks".

Econometrix economist Tony Twine said that while the CPI augured well for a rate cut, "it did not fully cancel out the impact of the poor credit extension growth figure".

# Trade surplus rises as exports increase 11,4%

ARG 30/7/97 (74A)

**Johannesburg – South Africa's trade account surged further into positive territory in June, with the monthly trade surplus rising to more than R3 billion from R1,745 billion in May.**

The figures released by the Department of Customs and Excise yesterday showed exports increased 11,4% to R13,7 billion last month.

Imports were lower at R9,55 billion compared to R10,57 billion previously, but excluded approximately R1 billion in crude oil imports which were not cleared by the time the calculations were made.

This left a June trade surplus of around R3,15 billion, significantly exceeding analysts' forecasts.

The cumulative trade surplus has risen to around R7,7 billion, almost R6 billion higher than the surplus of R1,9 billion at the same time last year. – Sapa

Hansard



*8. Mrs P W CUPIDO – Health. [Written question No 914] [Question standing over.]

*9. Dr W A ODENDAAL – Health. [Written question No. 915] [Question standing over.]

*10. Mr A E REEVES – Transport. [Written question No 916] [Removed.]

*11. Mr J J DOWRY – Posts, Telecommunications and Broadcasting. [Written question No 918] [Removed.]

**Commuters/traffic officers: intimidation/victimisation**

*12. Mr D M STREICHER asked the Minister of Transport: [Written Question No 920]

(1) Whether any incidents of (a) intimidation and/or (b) victimisation were reported by (i) commuters and/or (ii) traffic officers in 1996; if so, how many in each case;

(2) whether any of these incidents have been investigated; if not, why not; if so, how many in each case;

(3) whether any persons have been prosecuted as a result; if so, how many in each case? N1616E

The MINISTER OF TRANSPORT:

Intimidation and victimisation occur in certain spheres of transport activity. However, collating statistics on reported incidents would be a rather complex task. To obtain reasonably meaningful data we would at the very least have to approach provincial and local government executive authorities in all 9 provinces, together with the relevant parastatals and tourism organisations. This exercise would obviously take some considerable time to complete.

It is also not clear how useful such data would be, since in cases of alleged intimidation/victimisation which do *not* result in prosecution or disciplinary proceedings, the objectivity of the incidents in question can not be tested; while on the other hand, there may be very significant under-reporting of incidents which did not lead to any violent outcome.

I have to stress that, since the introduction of the new Constitution, the responsibility for law enforcement (other than for cross-border transport) has been devolved from my Department to other spheres of government. Within the sphere of cross-border law enforcement, no incidents of victimisation were reported to my Department.

General complaints against taxi drivers were often made at taxi hearings during the NTTT process. The media has also brought to light complaints by tourists (foreigners) against taxi drivers with intimidating attitudes. On the other hand, taxi drivers also drew attention during the NTTT process to intimidation by *commuters*. Once again, in the absence of any criminal investigation, the subjectivity of these allegations remains a problem. None of these complaints could, in any event, be investigated by my Department, since they do not fall within its competence.

In the case of rail, isolated incidents of intimidation/victimisation (falling short of actual assault or robbery) do occur on trains and stations. The number of incidents which actually result in reports being made is, however, insignificant and follow-up investigations appear to be very difficult to conclude.

For example, only three (3) incidents were reported in the Johannesburg Metropolitan area during 1996/97. These incidents were indeed investigated, but complainants could not be located or could not provide sufficient information to lead to prosecution.

*13. Mr J J DOWRY – Posts, Telecommunications and Broadcasting. [Written question No 921] [Removed.]

**South Africa's trade deficit/surplus** 74A

*14. Mr A K BEESHAM asked the Minister of Finance: [Written Question No 922]

What was South Africa's trade (a) deficit and (b) surplus in each month in (i) 1995 and (ii) 1996? N1618E

The MINISTER OF FINANCE:

In South Africa official trade balance[1] statistics are compiled on a quarterly (Q) and an annual basis. Preliminary cumulative trade figures are released monthly by the Commissioner for Customs and



Excise, but these estimates do not conform strictly to balance of payments requirements, and include trade of other Customs Union countries. This shortcoming limits the answer to the above question to quarterly available data in the SARB Quarterly Bulletin.

It must be pointed out that the trade balance in each quarter of 1995 and 1996 was positive, thus representing a trade surplus. The trade surplus represents the amount by which the value of total goods exported exceeds the total value of goods imported. (After taking account of receipts and payments for services, South Africa however recorded a balance of payments "current account" deficit in 1995 and 1996.)

(a) Trade Surplus (R million)

| | 1995 | | | | | 1996 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 1995 | Q1 | Q2 | Q3 | Q4 | 1996 |
| Merchandise exports | 17 782 | 19 234 | 22 286 | 21 987 | 81 289 | 20 665 | 23 439 | 26 546 | 28 168 | 98 818 |
| Plus: Net gold exports | 5 670 | 5 569 | 6 234 | 5 064 | 22 537 | 6 233 | 6 325 | 7 184 | 6 552 | 26 294 |
| Less: Merchandise imports | 22 960 | 24 241 | 25 870 | 24 891 | 97 962 | 24 791 | 28 539 | 32 312 | 30 684 | 116 326 |
| Trade Balance | 492 | 562 | 2 650 | 2 160 | 5 864 | 2 107 | 1 225 | 1 418 | 4 036 | 8 786 |

[1]Trade balance refers to the difference between the exports and imports of goods only. These figures are also published on an annualised seasonally adjusted basis in the South African Reserve Bank Quarterly Bulletin.

(b) Trade Surplus: percentage change compared with previous year or same quarter a year ago:

| | 1996 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 1996 |
| Merchandise exports | 16,2% | 21,9% | 19,1% | 28,1% | 21,6% |
| Plus: Net gold exports | 9,9% | 13,6% | 15,2% | 29,4% | 16,7% |
| Less: Merchandise imports | 8,0% | 17,7% | 24,9% | 23,3% | 18,7% |
| Trade Balance | 328,3% | 118,0% | 46,5% | 86,9% | 49,8% |

**Daily unit cost per prisoner**

*15. Rev M M PHENETHI asked the Minister of Correctional Services: [Written Question No 923]

What was the daily unit cost per prisoner in the 1995 - 96 financial year? N1619E

The MINISTER OF CORRECTIONAL SERVICES:

Total cost per prisoner per day = R 61-30

Total cost per probationer per day = R 14-04

**Taxpayers/tax levied**

*16. Mr D DE V GRAAFF asked the Minister of Finance: [Written Question No 924]

What was the (a) number of individual taxpayers (b) amount in tax assessed, expressed as a percentage of total tax assessed and (c) total amount in tax assessed, in each income category in respect of the (i) 1994-95 and (ii) 1995-96 financial years? N1620E

The MINISTER OF FINANCE:

Individual taxpayers are assessed according to tax years. Details of taxes on assessments issued up to 31 August 1997 are therefore reflected accordingly.

# Slump in SA trade surplus caused by June oil figure

BD 1/9/97 (74-A)

**Belinda Beresford**

SA's monthly trade surplus for July was at R850,2m compared with a revised surplus of R3,18bn in June, customs and excise figures show.

The figures have been adjusted for R965,7m of oil imports previously not included in June's figure.

Missing from the import figures for the year to June was a further R1bn of oil imports which could not be attributed to any specific month. This figure was included in the July import data, giving imports for the month of R12,67bn from R10,52bn for June. Exports fell slightly to R13,52bn from R13,7bn in June.

If these adjustments were excluded, July saw a trade deficit of R115,5m compared with a surplus of R4,15bn for the previous month. The revised July surplus was virtually the same as the market consensus of R850m.

The cumulative trade balance for the year to July was R8,55bn — more than twice the balance of R3,63bn at the same time last year.

Customs and excise commissioner Jack Heyns said the trade figures were now up to date. The trade data was released as a cumulative total since it was not departmental policy to comment on individual months, he said.

The Standard Bank economics division said: "Not much should be read into monthly data as it is highly misleading." It said the upward trend in exports and the decline in imports were likely to continue at least to the end of the year.

Economist Chantal Friedman of Barnard Jacobs Mellet agreed the trade figures were showing positive trends, with imports flat to declining and exports rising.

She said the trade figures were supportive of her expectation of an interest-rate cut by the end of the quarter.

Exports had seen a 20,8% cumulative increase year on year, comfortably above the 14,3% year-on-year cumulative growth in imports.

Export growth was broad-based with the exception of the "unclassified" category, which includes platinum, uranium and armaments.

A 61% year-on-year cumulative growth in mineral imports was largely attributable to the increase in oil imports after SA's sale of sanctions-related stockpiles.

Friedman pointed out that growth in the two largest import categories, machinery at 31,3% of the total and vehicles and parts at 13,3% of the total, had fallen to single digits.

The positive trade trends were likely to continue, with a "good possibility" that the current account deficit could be less than 1% of gross domestic product, Friedman said.

# Oil glitch upsets the trade balance

(BR) CT 1/9/97

(74A)

Christo Volschenk
Economics Editor

Cape Town — The trade account swung from a massive surplus of R4,15 billion during June to a small deficit of R116 million during July when consignments of oil worth R1,9 billion, which could not be cleared in time during June, were included in the July import bill, the South African Revenue Service said last week.

It said exports dropped from R13,7 billion in June to R13,5 billion in July, while imports rose from R9,5 billion in June to R13,6 billion in July.

Cumulative exports in the first seven months of the year amounted to R81,5 billion, or 21 percent more than in the same period last year. Cumulative imports totalled R73,3 billion against R64,1 billion, which was only 14,3 percent higher, the service said.

The cumulative surplus more than doubled from R3,4 billion last year to R8,5 billion in the same period this year.

The turnaround on the trade account in July was more pronounced than expected but economists said at the weekend the deficit of R116 million did not annul the gradual improvement recorded by the trade account in the first half of the year.

"Had the R1,9 billion been included in the June import bill, the June surplus would have been R2,3 billion and the July surplus R1,8 billion, which would still have been appreciable," Econometrix, the economic consultancy, said in a press release.

Some economists were disappointed by the export performance in July, while others said the small drop in exports was partly because of the fact that an exceptionally high export figure was recorded in June.

The drop in the gold price in July also depressed the proceeds from gold exports.

# Trade surplus enhances indicators

(74A)

ST(BT)28/9/97

ECONOMIC DATA

By MARCIA KLEIN

SA recorded a trade surplus of R1.02-billion in August from July's deficit of R115.5-billion, customs and excise figures show.

This brings the cumulative surplus for the year to end-August to R9.57-billion from R8.55-billion in the year to July and R3.59-billion in the year to August 1996.

The figures exclude mineral imports, which include oil, of R452.5-million — which should provide a fillip to the September data.

The trade figures and consumer price index, both positive indicators, precede a number of economic indicators due over the next few days.

Economists are eagerly awaiting money supply and private credit extension figures, and the first-time release of detailed gold and foreign exchange figures.

If the latest round of economic indicators are moving in the right direction, an interest rate cut will be expected; most economists expect a cut by the end of October. Reserve Bank governor Chris Stals said this week that the indicators looked positive.

Good economic data would also help to pacify SA's jittery markets, suffering from traditional October nervousness, compounded this year by the 10th anniversary of the big October 1987 crash.

# August trade balance shows surplus

BD 29/9/97 (74A)

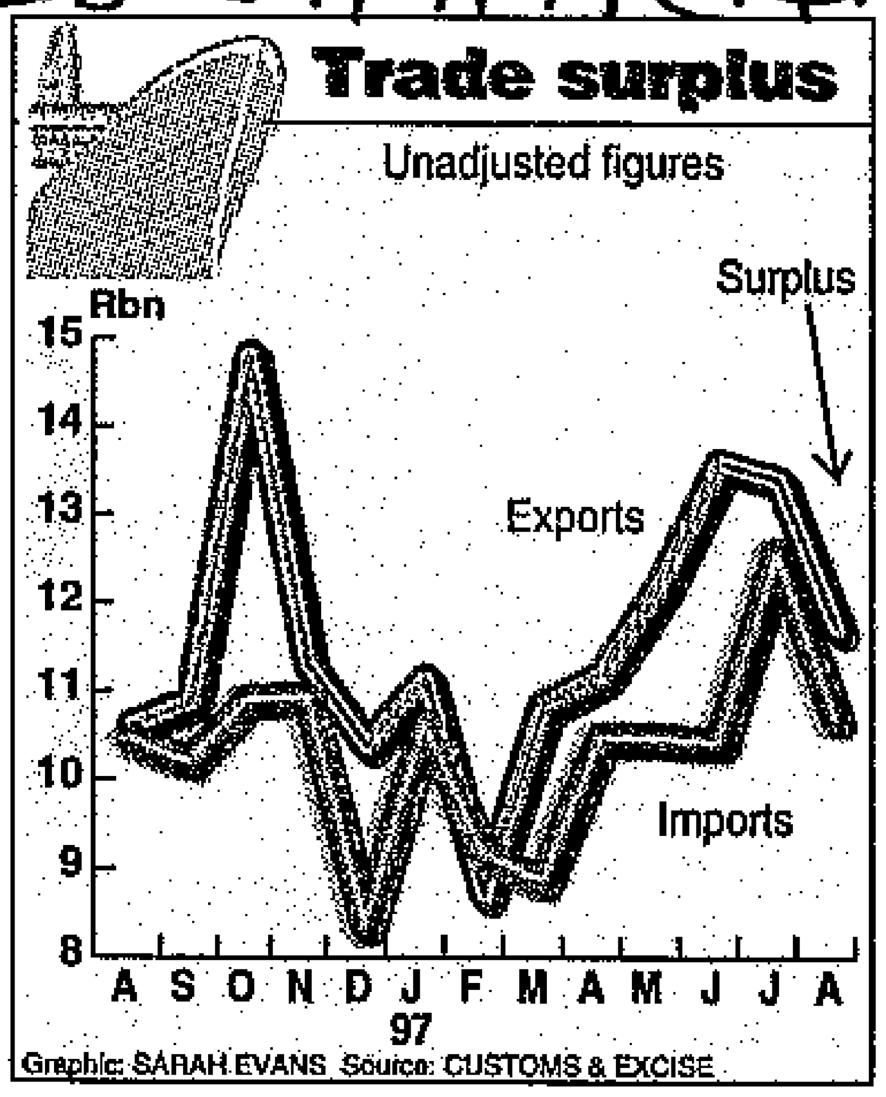
**Belinda Beresford**

THE August trade balance showed a surplus of R571m, after making an adjustment of R453m for oil imports, customs and excise reported on Friday. Excluding the oil adjustment, the surplus totalled R1,02bn.

The adjusted figure was towards the bottom end of the consensus forecasts, although economists stressed the volatile nature of the indicator complicated forecasting. Frequent revision of the trade figures mean most economists prefer to concentrate on trends rather than monthly figures.

For July the trade account posted an unadjusted deficit of R116m. Customs and excise reported imports from January to August totalled R84,125bn, while exports were R93,7bn.

Barnard Jacobs Mellet economist Chantal Friedman pointed out that if the July figure was adjusted for previous underreporting the figure was actually a surplus of R1,8bn.



Graphic: SARAH EVANS Source: CUSTOMS & EXCISE

Friedman said almost universal good performance meant exports grew by 18,3% in the eight months of the year, helped by depreciation of the rand and development of new export markets.

"Particularly gratifying is growth in manufactured exports. Machinery and transport equipment, which together make up 10% of total exports, grew by 48% year on year between January and August," she said.

Although imports showed a 13,3% year-on-year growth to date this year, the trend was slowing, she said.

Nedcor chief economist Dennis Dykes said August trade figures were "more or less in the expected range". He dismissed suggestions the exports slowdown resulted from a bulge in shipments ahead of the expiry of the GEIS (general export incentive scheme). He was unconcerned by the recent exports slowdown, especially as import demand was also softening. Trends indicated domestic spending was slowing down, "right on track".

Email: roberts@tml.co.za

# Trade slide will hit current account

(74A)

FM 31/10/97

SE Asia and gold knock-on effects

**A disappointing** trade surplus of less than R200m during September is expected to be the start of a trend that will see the current account deficit expand again next year.

Economists are predicting that SA's account deficit will move above 1% of GDP next year after shrinking to below the critical level this year.

Some are more pessimistic about the country's trade prospects, bearing in mind the southeast Asian crisis and the knock the gold price has taken on world markets.

ING Barings economist Nick Barnardt predicts that the account deficit will grow to R10bn next year (1,5% of GDP) and to R16bn (2,3% of GDP) by 1999. This year, he sees the deficit at R6,5bn or 1% of GDP.

His pessimism is based on the termination of export subsidies blunting export growth momentum early next year. Import growth, on the other hand, is expected to pick up in line with the growth in domestic demand.

The southeast Asian currency crisis, he says, will affect exports negatively and lead to a flood of cheap imports from the region. "My forecast is conservative and the risk on the downside," he says.

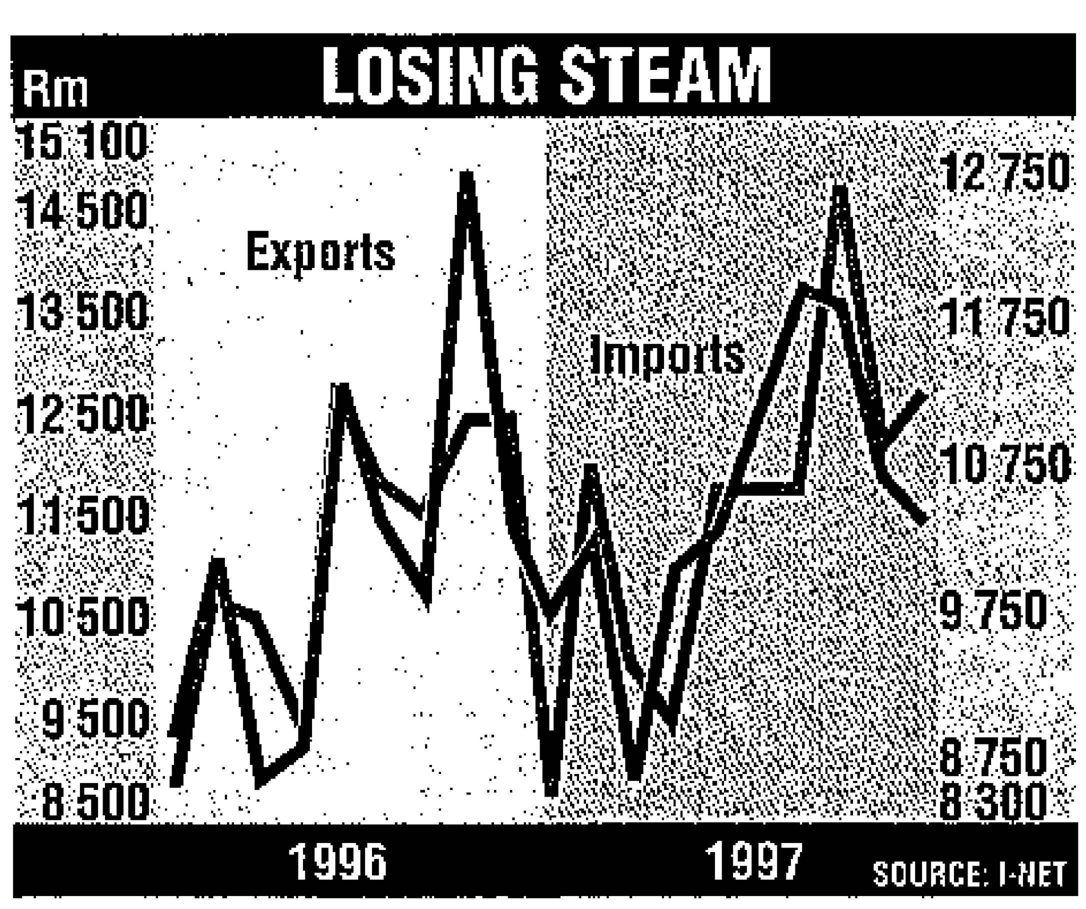
Syfrets economist Sandra Gordon expects the account deficit to increase to R8,4bn or 1,3% of GDP by next year from a level of R5,4bn (0,9% of GDP) this year.

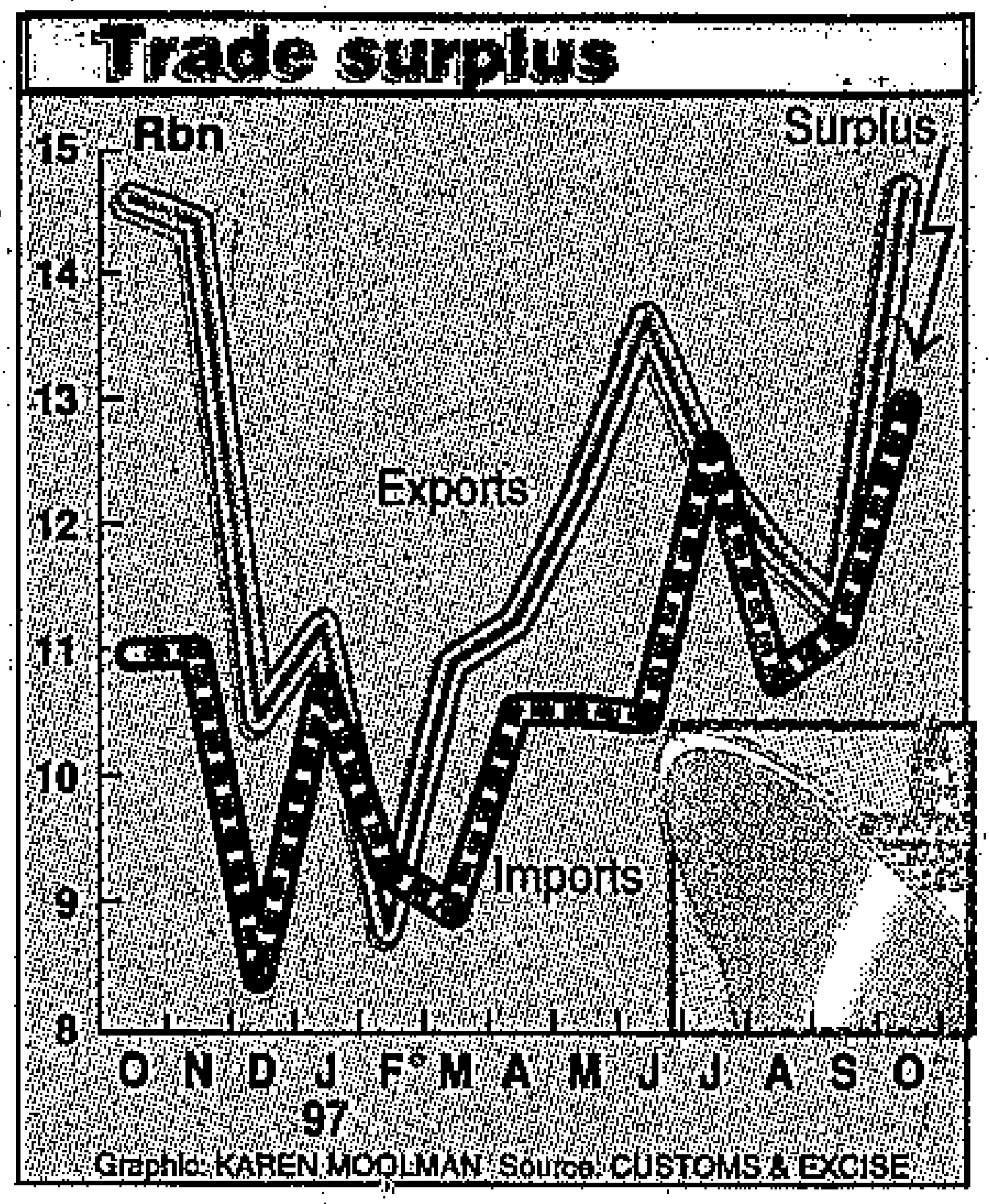
On the positive side, Huysamer Stals economist Johan Rossouw expects a current account deficit of R5bn to be recorded in 1998 and a R3,9bn deficit this year.

He says that is in line with the general trends up to now. "Exports have done fairly well and imports can be expected to fall away during the last two to three months of this year as domestic demand falls."

Next year the business cycle will turn upwards again, he adds. But imports will not be affected until the end of the year because the upturn will only take place towards the end of the third quarter next year.

Sharon Wood






# Trade surplus shows a healthy increase

(74A)

Greta Steyn

BD 25/11/97

SA's trade surplus rose to a healthy R1,73bn in October from R144m in September, reflecting a 30% surge in exports.

Customs and excise figures released yesterday showed that exports were R14,73bn in October, higher than R11,35bn in September. The figures were distorted, because October's exports included diamonds from Botswana. However, there was healthy growth in other export categories.

Reuter reports that customs and excise plans to publish trade figures from next February excluding SA's customs union partners, Botswana, Lesotho, Namibia and Swaziland.

Economists welcomed this as it would make analysis of SA's trade performance much easier.

Imports rose to almost R13bn in October, from R11,21bn in September.

The trade surplus far exceeded the consensus forecast of R620m.

Even though the markets are wary of the volatile monthly figures, the healthy number helped bump the rand off its low of R4,8480 to the dollar.

The cumulative figures for the year to date are more important as an economic indicator than the erratic monthly data. The trade surplus for

Continued on Page 2

# Trade surplus

(74A)

Continued from Page 1

BD 25/11/97

January to October is R11,45bn — an increase of 37% from a year earlier. Manufactured exports have performed particularly well, making up for gold's lacklustre performance.

Barnard Jacobs Mellet economist Chantal Friedman noted that machinery and transport equipment exports remained the star performers, with growth of about 45% in the first 10 months of the year. "The push from manufactured exports is pleasing, no doubt helped by the fall in the rand, but the impact is starting to abate."

She said the phasing out of the general export incentive scheme was part of the reason manufactured exports had performed exceptionally well but were now levelling off.

Rand Merchant Bank economist Rudolf Gouws said the rise in imports in October from September was less worrying than it looked, as the import bill had been boosted by oil purchases.

When oil was excluded, imports in October were up only 7% month on month and 5,5% year on year.

"The figures confirm that imports are levelling off, especially if one takes into account rand weakness in October," he said.

FOREIGN TRADE

- BOP -

Nov '98 - Aug. '99

# Trade balance shows strong surplus

Greta Steyn (74A)

BD 27/1/98

SA's exports ended last year on a high note, helping the trade balance to swing dramatically into the black with a surplus of R1,83bn in December against November's R73m deficit.

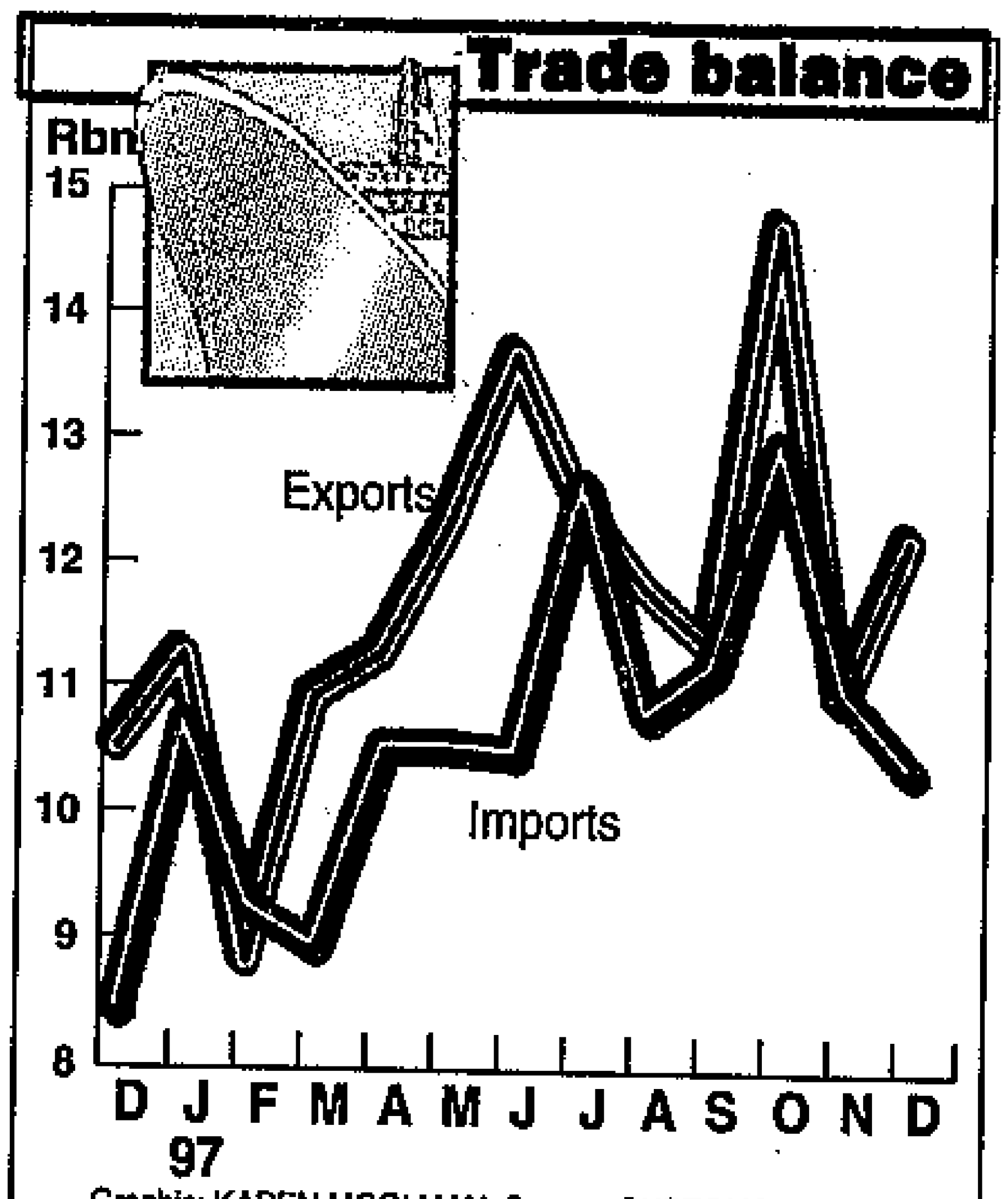
Customs and excise figures released yesterday showed exports rose to R12,23bn in December from R10,92bn in November. Base metals and miscellaneous manufactures accounted for most of the increase.

Imports fell to R10,4bn in December from R10,99bn in November.

The trade surplus for the whole of last year was R13,2bn — 28% up on a revised R10,3bn in 1996. Exports of manufactured goods had a spectacular year, reaping the benefits of the rand's depreciation in 1996.

Economists were pleased about last year's healthy trade performance, but said it would not continue this year. The impact of the Asian crisis would hit exports on a number of fronts, with world economic growth slower than initially expected and commodity prices coming under pressure.

Barnard Jacobs Mellet economist Chantal Friedman said machinery and transport equipment were the star export performers last year. Put together, these categories grew 38% last year from 1996. "It is manufactured, rather than commodity, exports in which price competitiveness becomes an issue — so the push was probably helped by the rand's fall." Some commodity exports, such as mineral products, performed better than average.




Graphic: KAREN MOOLMAN Source: CUSTOMS & EXCISE

The Standard Bank's economics division noted that exports to Asia were down 3,8% year on year in the second half of last year after surging almost 20% in the first half.

"This poor performance is due to the crisis in north and southeast Asia.... The problems in these economies have resulted in an estimated loss in export earnings from Asia of R3bn in the second half of 1997." As a result, the bank had revised down its export volume growth for this year to 4% compared with about 8% for last year.

Rand Merchant Bank economist Rudolf Gouws said the December trade surplus suggested the current account deficit could come in between R7bn and R7,5bn for last year as a whole. This amounted to no more than 1,2% of gross domestic product. Gouws said the trade balance for the year as a whole would be lower than customs and excise's estimate, as the monthly figures included Botswana's diamond exports, which had been substantial.

The current account deficit is the trade surplus less net payments for invisible trade such as interest, dividends freight and insurance. Expectations are that the current account deficit will widen to R13bn this year.

BD 27/1/98 (74A)

TRADE SURPLUS 74A

# Diamonds still add sparkle

FM 30/1/98

The December trade figures look rosy, but what do they mean?

**The December** foreign trade figures suggest exporters earned a healthy Christmas bonus last year. The trade account showed a R1,83bn surplus in December compared with a R73m deficit in November.

Most of the rise in exports came from base metals and miscellaneous manufactured goods. Sales rose to R12,23bn in December from R10,92bn in November.

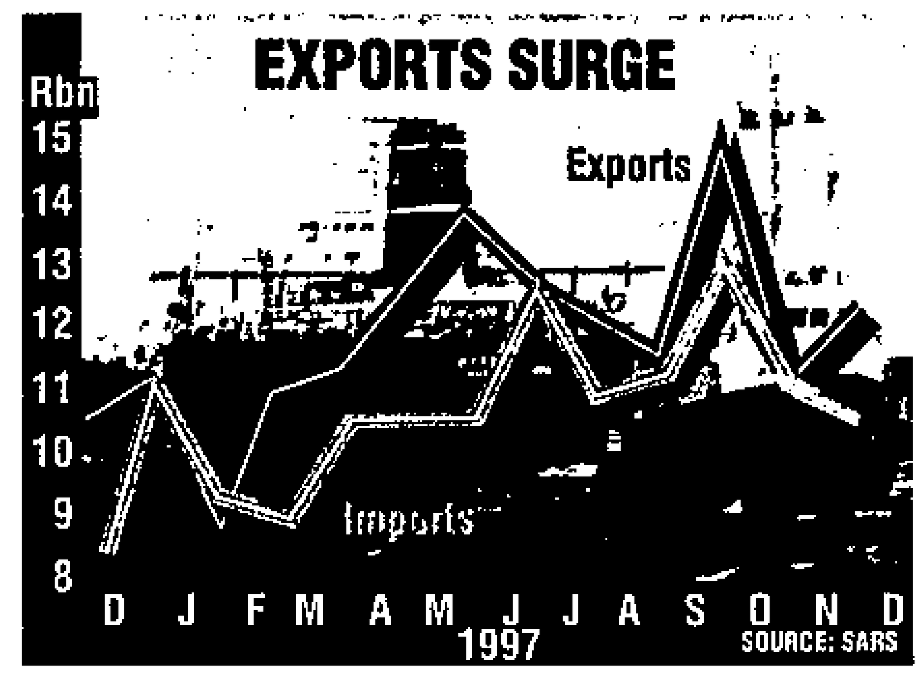
The surplus was boosted by subdued importing activity, down to R10,4bn from R10,99bn in November.

But ING Barings chief economist Nick Barnardt cautions against reading too much into the surplus. He argues:

- About R500m of the surplus reportedly came from diamond sales by Botswana. Customs & Excise intends to separate SA trade from that of its Southern African Development Community neighbours, but until then the figures refer to the entire SADC region;
- Lower imports are nothing to get excited about. December is traditionally a slow month for imports, as retailers tend to start stocking their shelves around October and finish in time for December; and
- Barnardt suspects the adjustments of previous months' data put through in December may have distorted the results too.

Barnardt points out that the cash current account deficit for the fourth quarter of 1997 appears to have been about R1,3bn, which takes the current account deficit for the whole year to a reasonable R7bn.

But the underlying trend tells a different story. Taken on a seasonally adjusted, annualised basis, the Reserve Bank has reported a deficit of R3,5bn in the second quarter and R6,5bn in the third quarter and Barnardt's calculations show R9,5bn for the fourth quarter.




"So there is an underlying widening process," says Barnardt. "There is no question that there will be a wider current account deficit this year; the question is just how much wider it will be."

The trade environment this year will be characterised by weak currencies among SA's target markets in Africa and the East, and weak commodity prices worldwide.

Africa is the biggest buyer of SA-made goods, so the strong 1997 export performance of that sector is unlikely to be repeated this year as African trading partners like Zimbabwe feel the effects of weakened currencies.

Not only will export volumes to Africa come down, but so will prices of commodity exports like gold, steel and aluminium.

"Africa and Asia have accounted for nearly 45% of total export growth or half the growth in trade of which the direction is known," says FBC Merchant Bank economist Mike Schüssler. He says the rot has already set in. Exports to Africa grew only 4,2% year-on-year in the second half of 1997 — compared with 36% in the first half of 1997 and growth in exports to Asia fell to a cumulative 6% in the year to December, from around 26% in the year to May (see *Cover Story*.)

"Africa and Asia have shown the fastest growth of all the bigger world zones," says Schüssler.

"SA exports to Africa used to be about one quarter of the size of our exports to Europe. Today it is 46% or nearly half the size of our European exports." **Adrienne Roberts**

# Wider deficit is a bad omen for trade

BD 17/2/98

(74A)

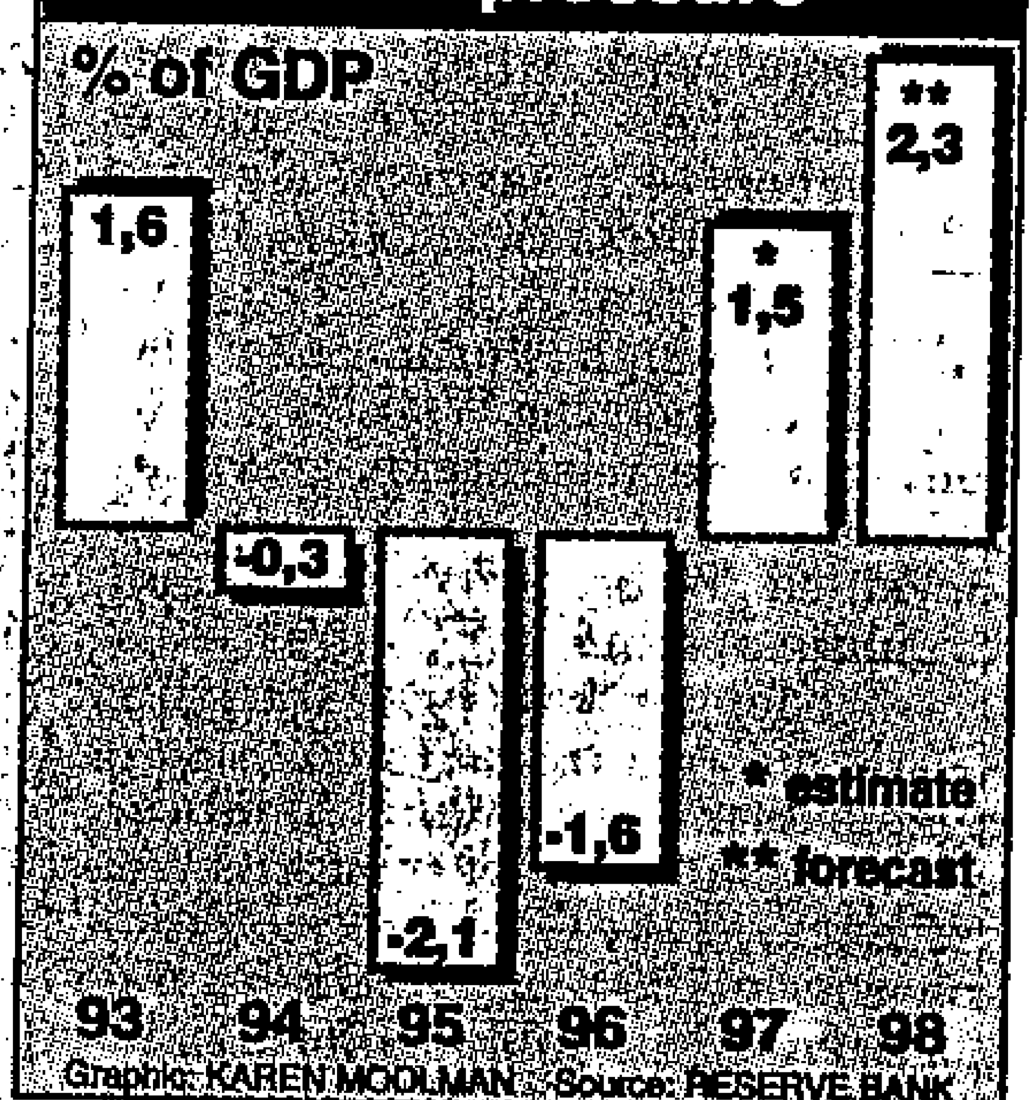
Greta Steyn

SA's current account deficit widened unexpectedly in the fourth quarter of last year, causing economists to predict that the rand might accelerate its depreciation against the dollar and other hard currencies.

The news was a bad omen for the trade performance this year, as exports were already expected to come under pressure because of the Asian crisis and the low gold price. The fact that the current account had weakened even before the crisis really took hold was a bad sign. The current account deficit is now expected to be more than 2% of gross domestic product this year from about 1,5% last year.

Economists said the balance of payments (BoP) might end up having a greater influence on policy decisions, especially regarding rand depreciation. Interest rates were not expected to be influenced much, although pressure on foreign exchange reserves could limit the fall in interest rates to two percentage points instead of three.

**Current account deficit under pressure**




Final figures for the current account deficit will be released only next month, but Reserve Bank deputy gov-

Continued on Page 2

## Deficit (74A)

Continued from Page 1

BD 17/2/98

ernor James Cross indicated last week that the deficit for the year as a whole would exceed the R8,5bn recorded in 1996. The current account is the trade balance less net payments for "invisible" trade such as interest and dividend payments. The deficit must be financed by capital inflows, otherwise it eats into foreign exchange reserves.

Economists said news of a higher deficit was a surprise, as customs and excise data had not suggested the trade balance was under pressure. However, customs and excise data included SA's neighbouring states in the customs union, which overstated exports.

The central bank's head of economics, Bernie de Jager, said the current account deficit was "marginally higher" last year from 1996. The figure for 1996 could be revised from the last estimate of about R8,5bn.

He confirmed that the new information suggested forecasts for this year might need to be revised. "The base has changed from which we calculate export and import growth."

Most economists are forecasting a current account deficit of about R12bn for this year, but some may raise this to R15bn. The annualised deficit in the fourth quarter was put at R15bn.

Rand Merchant Bank economist Julia Roy said the deficit was manageable. "But it could become more of a problem if there is nervousness about emerging markets which depresses capital inflows. If there is pressure, the fall in interest rates this year might be contained to two percentage points instead of three. Some stimulus for the economy might come from a weaker rand. We are not talking of a collapse, but it might make sense for the currency to depreciate slightly faster."

ING Barings economist Nick Barnardt said the rand would have to weaken to achieve BoP adjustment. "We are in a disinflationary environment and interest rates are obviously not the tool to protect the reserves. In fact, lower interest rates can help to achieve exchange rate depreciation." He expects a rand exchange rate of R5,45 to the dollar at the year-end.

Nedcor economist Dennis Dykes said he did not expect the BoP to affect monetary policy this year. "The deficit can be financed easily from capital inflows, especially as there are no big foreign debt payments this year."

# Trade balance starts year on positive note

BD 2/3/98 (74A)

Lukanyo Mnyanda

SA's trade balance started the year on a positive note and recorded a R476m surplus in January compared with R498m in the same period last year, though financial markets ignored the data because of the lack of comparative figures.

Last month's figures excluded the Southern African Customs Union — Botswana, Lesotho, Namibia and Swaziland — which are important for a clear and accurate picture of SA's trade performance.

The R1,83bn surplus recorded in December included figures from other customs union members, which makes comparisons misleading.

Standard Bank said the release of separate SA data was only one step in improving the credibility of trade data.

"The data is still susceptible to retrospective adjustments. The release dates for the data are just as volatile as the trade data itself."

Both imports and exports dropped slightly in the period under review. SA-only data showed a 5% decline in imports to R10,05bn while exports recorded a 4,9% fall to R10,53bn.

Economists said the figures were largely in line with expectations, should not change prospects for an interest rate cut later this month and did not materially affect forecasts of a R12bn to R15bn current account deficit for this year.

Rand Merchant Bank economist Rudolf Gouws said the slight drop in the trade surplus would not stand in the way of a rate cut.

Gouws said the most significant aspect of the latest data was a 13% fall in the combined customs union performance between December and January, which could have been due to the low gold price and seasonal factors.

Standard Bank's economics division said southeast Asia's financial crisis and weaker African currencies — most SA manufactured exports are destined for Africa — would add more pressure on export volume growth.

It said export volume growth should drop sharply to between 3,5% and 4% this year compared with about 8% over last year.

# Trade deficit with US falls due to growth in exports and drop in sales

Simon Barber (744) 20 10/3/98

WASHINGTON — SA's trade deficit with the US narrowed markedly last year as SA's exports to the US continued to grow and US sales to SA fell, according to new commerce department statistics.

The continued growth of SA exports to the US came despite anti-dumping proceedings against carbon steel plate made by Iscor and Highveld Vanadium, which helped account for a 9%, $31m decline in US purchases of SA iron and steel.

The companies effectively ceased exports of the targeted products after December 1996.

SA exports to the US totalled $2,5bn last year, up 8% on 1996, while imports of US goods fell 3% to $3bn. That represented a sharp, 36% reduction in the record $783m US trade surplus with SA posted in 1996.

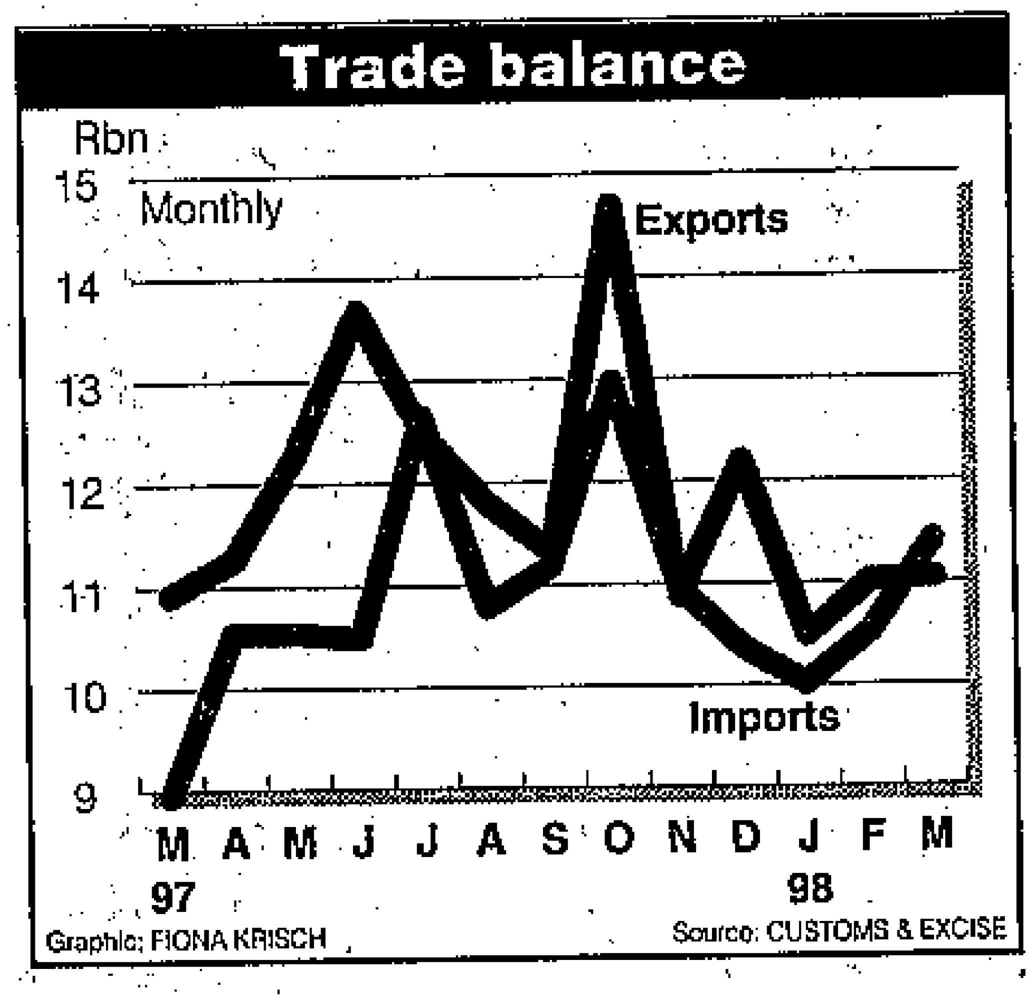
Nearly a quarter of SA's exports to the US were accounted for by sales of platinum sponge with a customs value of $564m, up from $474m in 1996. Overall, the US imported SA commodities worth $957m in the tariff category that includes the platinum group and other precious metals plus diamonds, a $100m increase over 1996.

US imports of SA chemicals continued to show strong growth, reaching $154m when the two basic categories, organic and inorganic, are combined, a 36% jump on 1996.

SA yarns, textiles and clothing also increased their penetration of the US market. US imports of SA products under all related tariff headings, excluding footwear and headgear, reached $104m, up from $90m in 1996 and $60m in 1994. Growth was especially strong in sales of knitted apparel, which reached $40m last year, up from $23m in 1996. SA clothing and textile manufacturers stand to receive a further boost if Congress passes the Africa Growth and Opportunity Act. In its current form, the bill would extend duty- and quota-free treatment to many sector products.

The fall in US exports to SA was chiefly accounted for by sharply reduced SA demand for US cereals, reflecting last year's good harvest. SA imports of US cereals went from $183m in 1996 to $86m last year.

Overall SA purchases of US capital goods remained largely unchanged.




# Machine imports push trade balance into red

(74A)

Stan Maphologela

THE SA trade balance unexpectedly slipped into a R361m deficit in March from a surplus of R511,5m in February as machinery imports surged, the latest customs and excise figures showed.

Economists expected a surplus of R600m and were surprised by the swing into the red. The worse than expected trade figures had a negative effect on both the rand and the bond market, although economists cautioned against reading too much into one month's figures. They were concerned that the current account deficit would rise faster than expected.

Imports rose 8,5% to R11,4bn in March from R10,5bn in February. Rand Merchant Bank chief economist Rudolf Gouws noted that the value of imports was 24% higher than March last year. "Concern about this rise is tempered somewhat by the fact that it was almost exclusively due to a massive increase (from R3,4bn to R4,6bn) in machinery imports. Not only is this most unlikely to be repeated, but it adds to SA's productive capacity."

Gouws said the cumulative figures for the first quarter showed exports were 5,2% higher than the year before, but imports were up 10,6%. The trade surplus, which had stood at R2bn in the first quarter last year, dwindled to R630m in the past quarter.

Standard Bank's economics division said that if machinery imports were stripped out, imports would have fallen in March. Exports rose marginally to R11,08bn from R11,06bn in February. Economists said the Asian crisis had not yet severely hit exports.

BD 4/5/98

# Trade imbalance is untenable — Mugabe

(~~3E3~~) BD 13/5/98 (74A)

Michael Hartnack

HARARE — Zimbabwe could not afford to maintain its R12bn-a-year trade imbalance with SA, President Robert Mugabe warned in Cairo yesterday.

"We hope the South Africans will be more reasonable than they have proved to be in the past," the state-controlled Herald yesterday quoted him saying at a briefing for Cairo embassy staff.

Mugabe attending the G-15 economic summit meeting in Cairo, for the first time commented on an issue which has brought warnings from local industrialists Jonee Blanchfield and Simba Makoni of a "trade war" between Harare and Pretoria. Mugabe said with further talks due on relaxation of tariffs and quotas, "optimism must be backed by results on the ground".

Meanwhile, diplomatic sources blamed tardiness in implementation of access for Zimbabwean agricultural produce for much of the local discontent about the trade relationship.

A sectoral subagreement signed last September should have seen SA opened to Zimbabwean farm exports of R100m a year, but has been delayed by issues such as crop hygiene.

The sources said criticism by Blanchfield that SA clothing and textile quotas at preferential rates were, so far, "too small to be meaningful", were belied by the fact the Zimbabweans had sought extra concessions only for yarn. Other quotas had not been taken up.

SA was also understood to be ready to reduce to zero tariffs on all Zimbabwean exports that attract 15% duty or less.

This covers 60% of SA tariff items.

The other 40% cover "sensitive items" such as sugar, textiles, clothing and electrical goods where the South Africans feared additional access could result in severe job losses or re-exports via the Southern African Development Community states of cheap goods from the Far East.

Mugabe's entrance into the controversy after more than 12 years of on-off talks about the future of the moribund 1964 "most-favoured nation" trade pact might give fresh impetus to the search for agreement.

SA unions strongly opposed concessions to Zimbabwe, claiming lack of shop-floor democracy enabled payment of rates a sixth of SA wages.

Mugabe told Cairo diplomats SA should realise it was as much of a market for Zimbabwe as Zimbabwe was for SA.

# BoP hit by double dose of bad news

(74A) BD 1/6/98

Greta Steyn

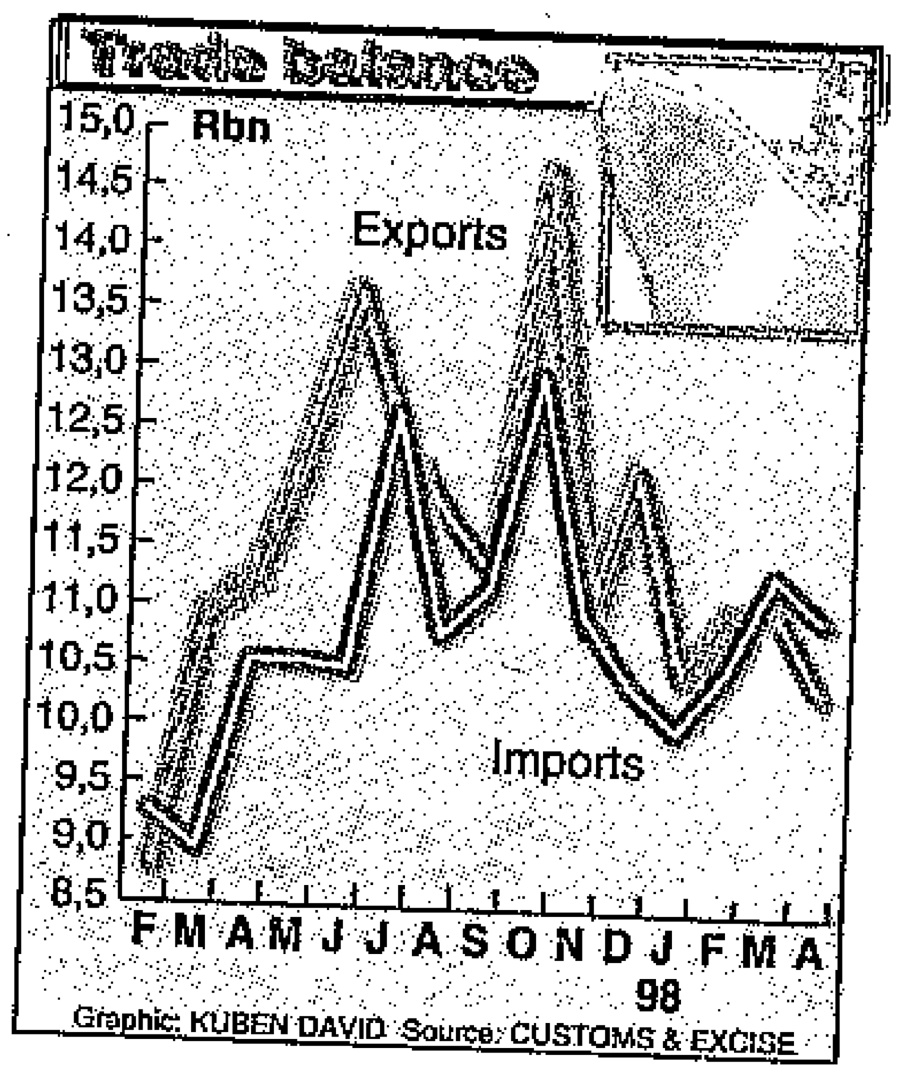
SA's financial markets are steeled for the fallout today from a double dose of bad news on the balance of payments (BoP) front.

The announcement on Saturday that the Reserve Bank borrowed almost R8bn to shore up the beleaguered rand last month followed the news on Friday that SA had recorded its second consecutive trade deficit in April.

Economists said the trade deficit of R761m was especially bad news because it underlined SA's dire need for foreign capital inflows.

These had dried up precisely at a time when SA needed them most.

Capital outflows had put the rand under pressure, triggering massive intervention by the Reserve Bank The Bank said it had drawn R7,9bn on its foreign credit lines last month, which lifted its gross reserves slightly from R32,7bn at the end of April to R32,9bn at the end of last month.



Graphic: KUBEN DAVID Source: CUSTOMS & EXCISE

Economists said the Bank's "direct" intervention in the currency market amounted to the fall in the net reserves of about R7,7bn — about $1,5bn. Intervention in the forward market should not be seen as reserves "spent", as the dollars had not been delivered.

The Bank increased its oversold forward book by $3,5bn. "It should be noted that this avoided a further substantial draining of liquidity from the domestic money market," the Bank said.

Economists said this comment meant interest rates would have been even higher if it had not been for the Bank's foray into the forward market.

The Bank said its net open forex position amounted to $17,9bn as at May 29 against $12,8bn at the end of April.

Deutsche Morgan Grenfell economist Gordon Smith said the news of the central bank's intervention was about as bad as it could get.

"We have undone all the progress we made this year and there is no reason to believe that foreign investors will become enthusiastic about SA again. They will probably sell into any rally in the market."

Rand Merchant Bank economist Rudolf Gouws agreed the news about the forex reserves was bad. However he believed the worst was probably over and that the longer-term trend in interest rates was still down.

The Standard Bank's economics division said the deterioration in the trade balance suggested the central bank would want to keep monetary

Continued on Page 2

## BoP

(74A)

Continued from Page 1

BD 1/6/98

policy tight.

The April trade performance suggested the current account deficit this year could exceed 2,5% of gross domestic product from 1,5% last year.

"The recent sharp rises in the repo and marginal lending rates are expected to be reversed when the financial markets have stabilised, but beyond that the case for interest rate cuts has clearly diminished," it said.

Exports were down 6,5% from March to R10,37bn in April, reflecting a fall in precious stones and metals. Imports were down 2,8% from March to R11,12bn as machinery imports fell.

The central bank said the pressure on the rand had not been caused by any fundamental deficiencies in the SA economy. "On the contrary, the domestic situation still justifies some relaxation of macro-economic policies."

The Bank said it had defended SA's financial position against a wave of negative sentiment towards emerging markets with a package that included partly financing the foreign exchange deficit and partly resorting to exchange and interest rate adjustments.

It had tried to provide maximum protection for the fragile domestic economic situation in an adverse international financial environment.

Exports surge: Page 4

# SA EXPORTS UNDER PRESSURE (74A)

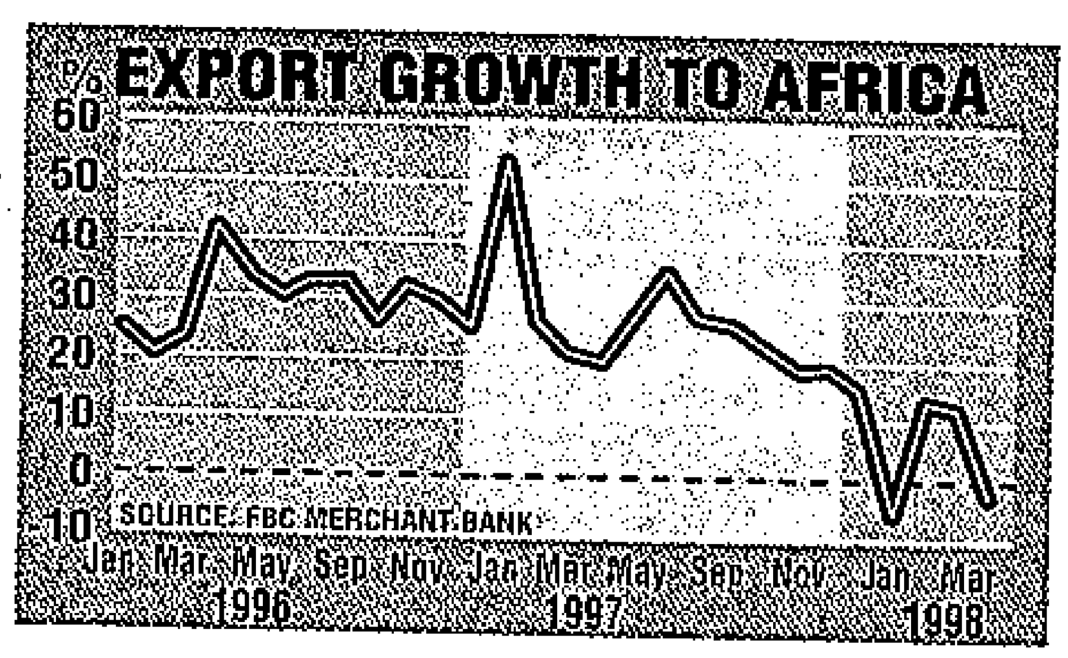


## Especially in Asia and Africa

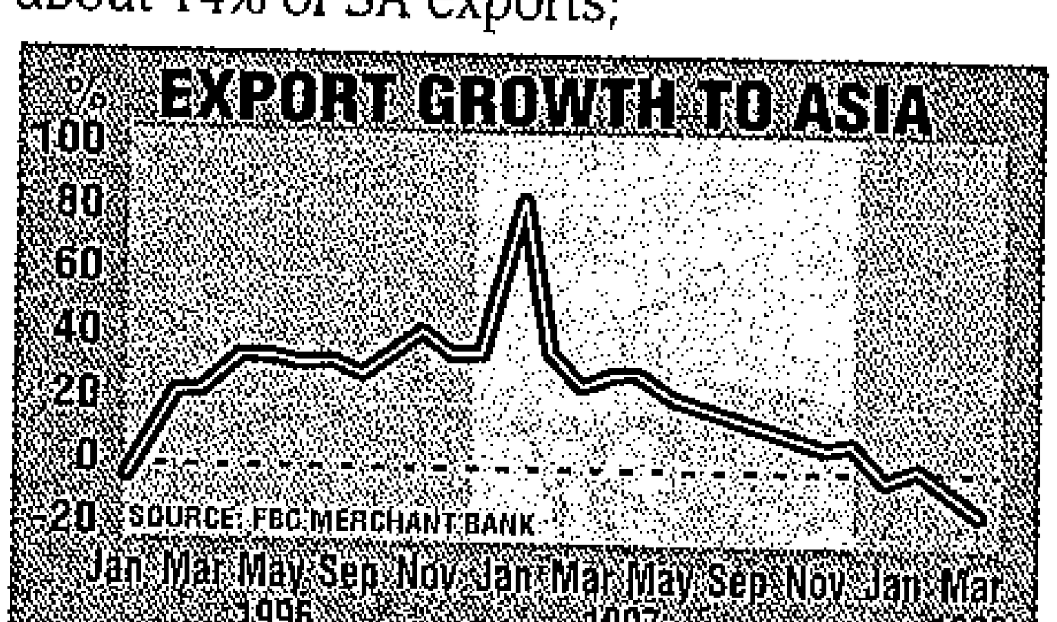
FM 12/6/98

The April trade figures indicate SA is paying the price for the Asian crisis and the strength of the rand in Africa. But the rand's weakness against the dollar and the pound are helping. "The UK and the US are the only large trade partners with whom we can expect better than average export growth this year," says FBC Merchant Bank's Mike Schüssler.

- To the Americas, current growth in exports is about 30%, well above the long-term average of 15%. The US buys only about 10% of SA's exports;
- Europe has bought about 45% of SA's exports over the past five years, during which sales have grown about 75%. Year-on-year export growth in April was only about 10%, compared with a longer-term average rate of 15%. This is a little surprising, but Schüssler says it could be a result of lower commodity prices and the rand's strength against continental currencies up to February;




- Exports to Africa have grown about 210% since 1994 (see graph.) But export growth has been slowing markedly, and it's possible exporters are entering a negative growth phase. "Currencies in Africa are under pressure as are the economies of some major trade partners such as Zimbabwe," says Schüssler. Africa buys about 14% of SA exports;




- But Asia, which buys about 20% of SA's exports, is showing the most dramatic change (see graph.) Cumulative exports in April were 14% lower than their 1997 level. This is the worst export contraction since 1980 — before which no reliable figures were available. "Nobody expected it to be so negative, and the trend still seems to be heading south," says Schüssler. ■

By Adrienne Roberts

# SA LOCKED INTO A VICIOUS CYCLE . . . (74A)

FM 19/6/98

## The balance of payments bind

It's usually assumed that the rand's natural path is to depreciate in line with the inflation differentials between SA and its trade partners. But experience shows that's not the only factor. Currency speculation and volatile foreign capital flows have now made the rand weaker against the dollar than inflation dictates.

This is partly a result of structural problems. SA is "a country living beyond its means," says BOE Securities' Herman van Papendorp. "We do not export enough to justify our appetite for imports. No wonder the country's share price — the currency — remains under constant pressure. This structural economic deficiency provides currency traders with a one-way bet against the rand over time."

Structural weaknesses include:

- SA's high and rising import propensity. From the fourth quarter of 1996 to the fourth quarter of last year overall spending rose by 2%. Imports rose almost 8%;
- Exports have slowed as the Asian crisis took its toll on global demand;
- An uncompetitive export mix. The bulk of SA's exports are low in value added and not price-sensitive. But they are vulnerable to commodity cycles, which are weak at the moment; and
- From 1993 to 1997 SA's gross domestic savings grew about 30% slower than investment did. And the money had to come from somewhere — either by attracting foreign savings through the capital account of the balance of payments or by running down SA's forex reserves.

Absa Securities consultant Edward Osborn argues the savings problem is a symptom of the growth trap SA has fallen into. The stuffing has been knocked out of the domestic economy as a result of job losses, particularly in mining and manufacturing, and the economy is no longer able to generate growth from within.

It's a vicious cycle that, in the medium term, means the rand will continue to depreciate in excess of inflation differentials. And SA will remain dependent on risky portfolio flows. Van Papendorp predicts growth is limited to a ceiling of 3,5%-4% for the foreseeable future.

SA's current account deficit was only 1,4% of GDP in the first quarter (from 2,3% in fourth quarter 1887.) And R11,2bn in foreign money flowed in through the capital account (R1,9bn.) But exports are unlikely to thrive under present worldwide conditions, and the current turmoil in SA's markets suggests second quarter figures will tell a different story. ■

# SA showing trade surplus with US for the first time in years

**Simon Barber** (74A)

WASHINGTON — In a remarkable turnaround, SA is running a trade surplus with the US for the first time in years, reflecting surging US imports of platinum group metals, ferroalloys and ore while SA demand for US goods remains flat, according to new statistics.

The US-SA trade balance moved in SA's favour in April, when SA recorded a $19m surplus with the US. On the year, the surplus stands at $9m, compared to a $255m deficit over the first four months of last year. Over the past three years, SA's annual deficit with the US has ranged between $500 000 and more than $700m.

The US commerce department's SA desk officer, Jerry Feldman, said much of the shift was "probably" accounted for by the rand's fall against the dollar, the strength of which in the wake of east Asia's liquidity crisis was accompanied by a sharp rise in the overall US trade deficit. There did not appear to be obvious, big-ticket transactions that would have accounted for a "spike" in statistics.

SA exports to the US in the first four months of the year reached $1,01bn, a 43% increase over last year's performance. US exports to SA were up only $35m to $999m. In April, SA sent to the US $289m worth of exports and imported US goods valued at $270m.

BD 25/6/98

# NEWS

*'Encouraging' figures ignored by the financial markets as all eyes focus on plunging rand*

# May trade surplus takes back seat

CT(BR) 29/6/98 (74A)

VERA VON LIERES

Cape Town — Last month's trade balance showed a sharp recovery after two months of deficits but was mostly ignored by financial market traders as the rand stole the limelight again, plummeting dramatically to new lows against the US dollar on Friday, economists said.

Figures released by the South African Revenue Service showed a healthy surplus of R2,01 billion in the country's trade balance after a R761 million deficit in April. Exports in May amounted to a more robust R12,3 billion, compared to R10,4 billion in April, mainly as a result of a better performance in the commodities sector.

Imports fell to R10,3 billion, compared to R11,1 billion in April, largely a consequence of a slowdown in machinery imports.

The cumulative surplus at the end of May was R1,87 billion compared to R2,41 billion over the same period last year.

The latest numbers were encouraging, showing an improvement in the country's balance of payments, which traditionally had been a problem area, economists said.

Standard Bank's economics division said although the sharp depreciation in the rand had negative inflationary and interest rate implications, it was positive for the current account.

"The deterioration in the currency (against the dollar and on a trade-weighted basis), particularly over June, bodes well for the trade balance over the remainder of 1998," the economics division noted.

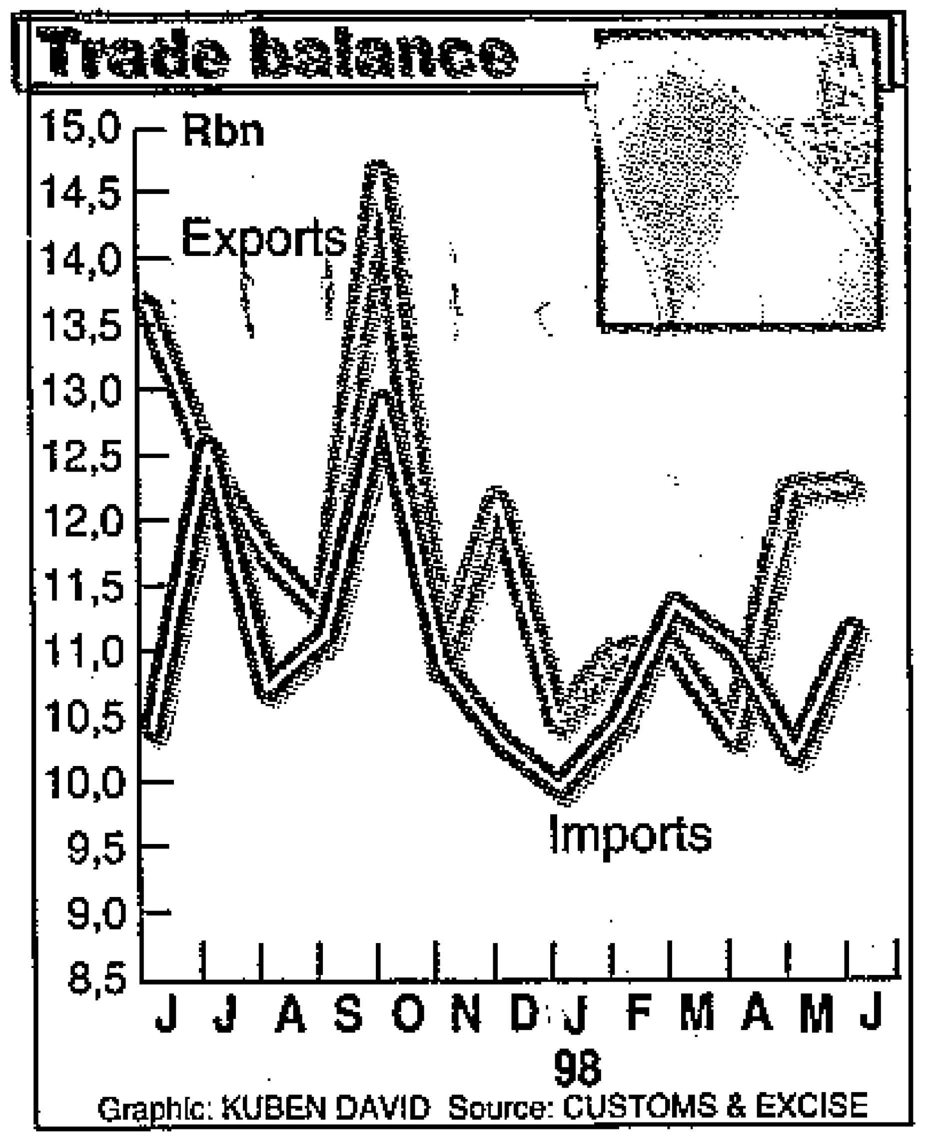
But the figures did little to calm nervous foreign exchange, bond and stock markets, which were shaken by a renewed onslaught on the rand on Friday.

Some economists reiterated that the trade figures were traditionally the most erratic among the key economic indicators released each month, and therefore likely to be brushed aside in the face of market volatility.

The rand plunged to a record low of R5,87 against the dollar on Friday in spite of unconfirmed reports that the US Federal Reserve and the Bank of England had intervened on world foreign exchange markets to buy rands for dollars on behalf of South Africa.

# June trade surplus a respectable R1bn

(74A) BD 31/7/98




**Greta Steyn**

SA NOTCHED up a respectable trade surplus of R1,07bn in June, half of May's exceptionally high surplus of about R2bn.

SA Revenue Service figures released yesterday showed imports rose from R10,3bn in May to R11,3bn in June while exports remained static at R12,3bn. Economists had not expected another surge in exports after May's spectacular rise, and were pleased that the trade balance had continued in a respectable surplus after deficits in March and April.

On a cumulative basis, the trade surplus for the first six months of the year was about R3bn, compared with about R4bn for the same period last year.

Machinery imports were the main driving force behind growth in the import bill once again. Barnard Jacobs Mellet economist Chantal Friedman said when machinery imports were excluded, import growth was soft, at only 4,6% year on year in the first six months of the year. "The strong growth in machinery imports is not cause for concern, given the strong correlation between machinery imports and gross domestic fixed investment in machinery," she said.

Economists said fixed investment was needed to improve the productive capacity of the economy and enhance growth potential.

Friedman said export growth was being hampered by the poor performance of gold and diamond exports. The category containing these exports had fallen 8,4% year on year. Although chemical exports were slow this year, other categories were showing "very respectable" growth. Excluding gems and precious metals, export growth had been 14,7%.

"Machinery and transport exports in particular are pleasing, with growth in both getting closer to 20% year on year. It is encouraging to see a diversification into manufactured goods," she said.

The Standard Bank's economics division said the outlook for the trade surplus in the second half of this year was "fairly positive" as a result of the sharp depreciation in the rand in the second quarter of this year. The rand had weakened to an extent that would raise revenues from commodity exports even if volumes remained flat. Manufactured exports should also benefit.

# SA in trade deficit of R252-m

(74A)

Sowetan 21/8/98

**By Isaac Moledi and Sapa**

SOUTH Africa recorded a R252 million deficit in July this year, after two successive large trade surpluses in May and June, figures released by the Department of Customs and Excise showed on Friday.

While total exports for the seven months to July – at R81,79 billion – were higher than imports for the same period at R79,09 billion, the imports for the month – at R14,36 billion – were 27,5 percent higher than the June figure and R252 million higher than the exports for the month.

Exports for the month only grew 14,5 percent to about R14,11 billion.

Most of the country's aggregate trade surplus to date came from trade with other African countries. South Africa's exports to Africa stood at R10,94 billion for the seven months, while imports from the continent were at R2,16 billion.

The country recorded a R12,7 billion trade deficit in its dealings with Europe during the same period, and nearly R5 billion with North America. South Africa also imported R7,15 billion more from Asia than that continent imported from the country.

Commenting on the figures, Standard Bank Investment Corporation said the July trade deficit was a short-term development reflecting pre-emptive buying of imports in expectation of currency weakness.

"We had expected a substantial decline, but remained positive at R300 million. The outlook for the trade balance in the next few months, however, is favourable," it said.

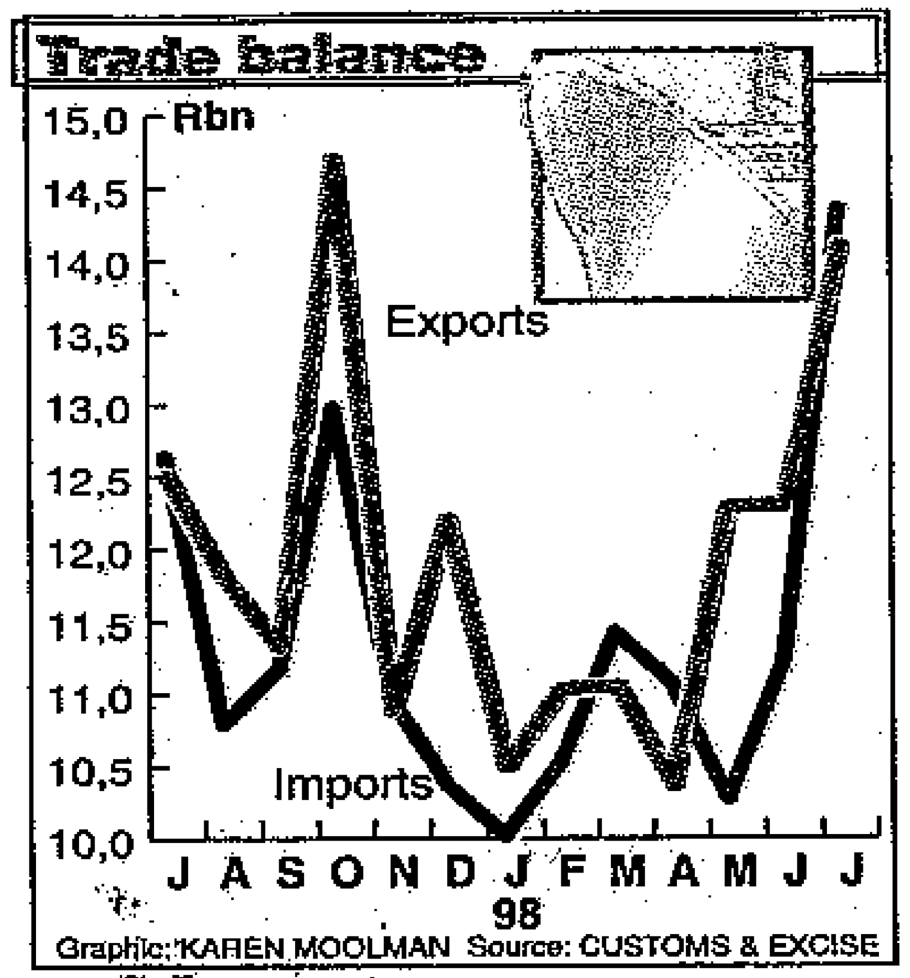
The bank said the expected recovery in the trade surplus by the end of the current quarter would come as a result of import volumes being subdued by their higher rand cost and a weaker domestic economy.

Meanwhile, South Africa would experience limited disruptions in its economic and financial systems because of its relatively low foreign debt (about R147,2 billion or about 21 percent of GDP) and the low foreign currency liability of the banking system (about 6,5 percent of total liabilities, or 3,2 percent when netting from foreign currency assets).

This was said by the international economic and market analysis specialist Salomon Smith Barney.

# Trade balance deficit temporary, say economists

(74A) BD 31/8/98




**Greta Steyn**

A SURGE of almost 28% in imports in July from June pushed the trade balance into a deficit of R253m after healthy surpluses in May and June, adding to the country's balance of payments woes.

The trade deficit came at a time when SA was experiencing foreign capital outflows, aggravating the shortage of foreign exchange.

But economists believed the deficit was a blip and the trade balance would soon swing into surplus again.

They remained optimistic about the outlook for the current account deficit this year. The current account balance is the trade balance less net payments for services such as dividends, interest, freight and insurance.

Economists said the sharp rise in the import bill reflected not only higher rand prices, but also an increase in volumes due to pre-emptive buying.

SA Revenue Service figures showed imports rose from R11,25bn in June to R14,36bn in July while exports rose from R12,32bn to R14,11bn. The trade deficit followed a surplus of about R1bn in June and about R2bn in May.

The Standard Bank's economics division pointed out that the rise in exports of 14,5% month-on-month failed to exceed the rand's depreciation by much, which suggested that export volumes had remained flat last month. The currency lost 14% of its value on a trade-weighted basis in July.

By contrast, the rise in imports had far outstripped the depreciation of the currency, suggesting significant volume growth. The bank said the volume growth was probably related to pre-emptive buying by importers uncertain about the future exchange rate.

The bank remained optimistic about the outlook for trade and the current account. Import volumes would become more subdued, it said, and the trade balance should notch up an average surplus of R1bn in the second half of this year.

Reserve Bank governor Chris Stals and finance officials have been optimistic about the current account deficit, saying it could be 1,5% of GDP or below, which is less than the 2% generally expected at the beginning of the year.

Barnard Jacobs Mellet economist Chantal Friedman said if machinery imports were excluded from this year's import bill, the rise for the first seven months of the year from the same period a year ago would be only 2,4%.

She said import growth in this major category was beginning to slow, and with economic growth grinding to a halt, overall imports were likely to slow sharply by the end of this year.

If interest rates remained high, the current account could swing into surplus early next year.

# Shock trade deficit as exports plummet

(74A)

BD 29/9/98

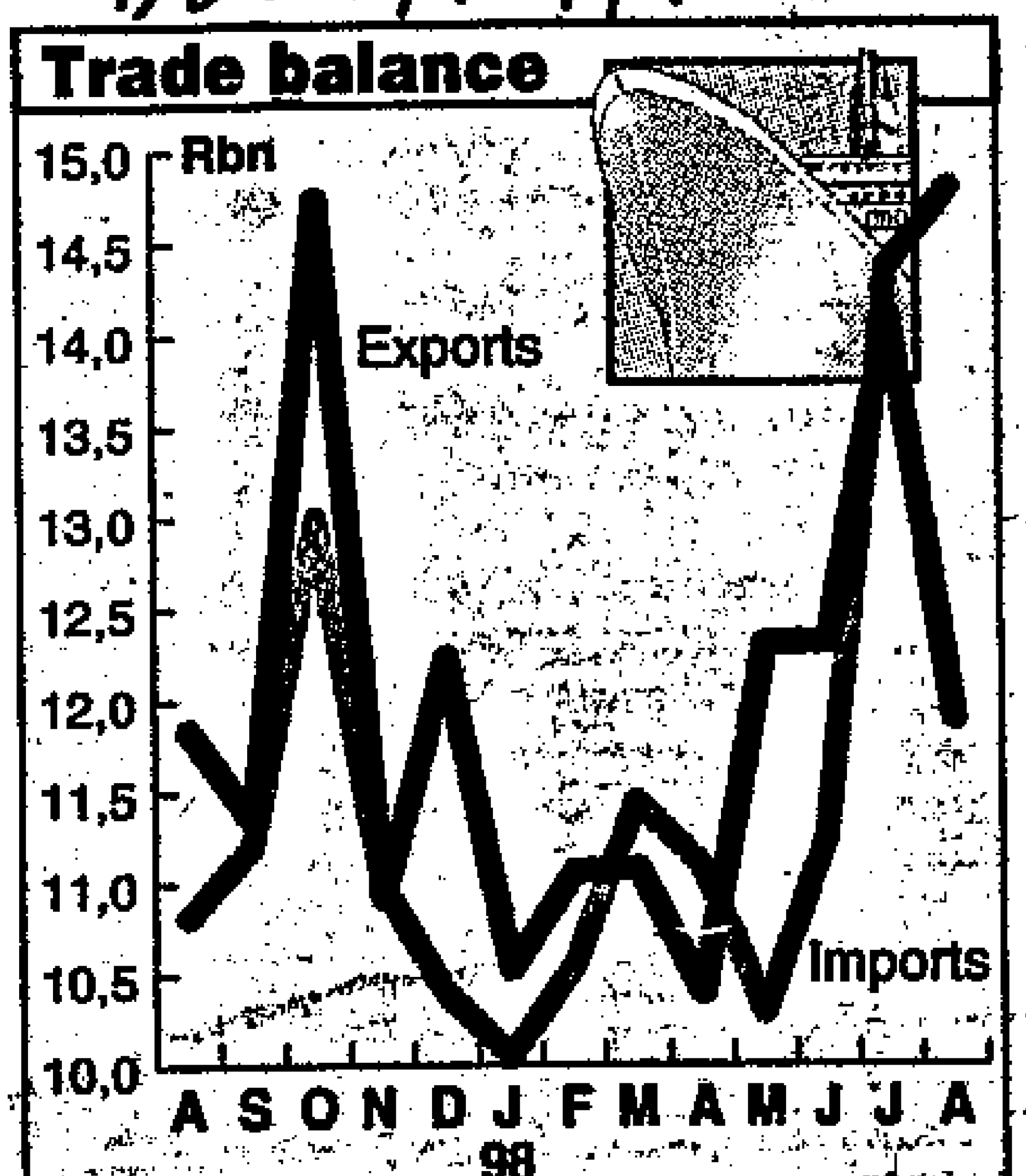
**Greta Steyn**

A SHOCK trade deficit of almost R3bn last month put a damper on optimism about SA's balance of payments (BoP) yesterday, briefly hurting sentiment in the bond and currency markets.

Customs and excise figures showed exports plummeted last month from July, falling to R11,86bn from R14,11bn. Economists said exports were hit by slack demand out of Asia, particularly for precious metals and gems. Demand from Africa for SA's manufactured exports, especially vehicles, also appeared to have weakened.

There was also some speculation that customs and excise's figures might be wrong, as the monthly trade data are notoriously erratic.

Imports were slightly up, rising to R14,82bn in August from R14,36bn in July. The import bill was distorted by the purchase of an aeroplane, which accounted for about R1bn.



Graphic: KUBEN DAVID Source: CUSTOMS & EXCISE

"The figure is a bit of a shock but we will not change our BoP forecasts unless next month's figures confirm the weaker trend," said Nedcor economist Kevin Lings.

Economists had expected the trade

Continued on Page 2

## Deficit

(74A)

Continued from Page 1

BD 29/9/98

balance to bounce back into the black after a small deficit in July. The surprise widening in the deficit took the cumulative trade balance for the year to a deficit of R257m.

The data caused a brief flurry of activity in the bond market, with the yield on the R150 rising about 20 points to 17,21% just after their release. But they could not make a lasting dent in sentiment, which had been boosted by expectations of a US rate cut and foreign buying of SA bonds. The yield on the R150 ended the day at 16,97%, having touched a best level early in the day of 16,85%.

The currency market also traded slightly weaker on the data, but not enough to change the belief that the rand would hold onto its gains against the dollar. The rand ended at R5,85 to the dollar, about 2,5c weaker.

Economists were worried that they would have to revise their forecasts for the current account deficit for the year, but said they would wait for another month's figures before taking a more pessimistic view. The current account is the trade balance less net payments for "invisibles" such as interest payments, dividends, freight, insurance and tourism.

One of the positive spin-offs of the weak rand was expected to be a small current account deficit of about 1% of gross domestic product this year. The deficit is a key indicator for foreign investors, especially for SA, as the country has a low level of foreign exchange reserves and needs foreign capital to cover the current account deficit.

Rand Merchant Bank economist Julia Roy stuck to her prediction of a current account deficit of 1% of GDP. She said the trade balance should improve in the fourth quarter, when weak domestic demand would reduce imports and exports should start showing the benefits of the weaker rand.

# SA'S TRADE IMBALANCE

(74A)

FM 6/11/98

Imports outstrip exports

As SA has opened up to free trade, local demand has responded faster to market forces than supply has — meaning imports have made bigger inroads into the SA market than SA exports have made abroad, says BOE chief economist Herman van Papendorp.

Analysis of SA's export performance since 1994 confirms SA has gained market share abroad. But normalisation of trade relations and the abolition of sanctions explain a big portion of it.

SA has experienced rapid export growth to Africa and Asia, but both regions' shares of exports are stabilising; "this suggests that any export diversification trends into Africa and Asia have come to an end."

**MAJOR SA EXPORTS***

| | % of total |
|---|---|
| Precious stones & metals | 20 |
| Base metals | 15 |
| Mineral products | 12 |
| Food & animal products | 11 |
| Machinery & transport | 11 |
| Chemicals & plastics | 7 |
| Other | 24 |

*Jan-Jun 1998

SOURCE: BOE SECURITIES

In SA's export mix, the proportion of manufactures increased from 15% to 23% between 1993 and 1995. But not much improvement has occurred since.

Almost half SA's exports are commodity-based. Earnings from commodities were 2,4 times manufactured export earnings in 1993. By 1995 the ratio was only 1,8 but it hasn't changed much since.

Commodities are traded in dollars, so a weak rand boosts competitiveness. But SA is a price taker in commodity markets, so if it is to boost its sales volumes it will have to manufacture more. Most sectors of SA industry have plenty of productive capacity to spare. But high interest rates, weak world demand and limp commodity prices may stop producers from using it. ■

# Deficit soars as SA's exports plunge

## Trade balance confirms bleak trend of the past months

(74A) BD 24/11/98

Stan Maphologela

SA's TRADE balance was worse than expected, with the deficit soaring to R511,5m in October from a R146m surplus in the previous month, which analysts said confirmed the bleak trend of the past months.

Customs and excise figures released yesterday showed that exports plummeted 5,84% to R13,04bn last month, which pushed the trade balance to disappointing levels for the month. Economists said the worse-than-expected figures were likely to dampen revived investor sentiments in SA, which followed the recovery in the world markets.

Standard Bank economics division said although imports fell in October — a reflection of the weakness of the domestic economy — the decline was offset by a fall in exports.

The bank said, given the nearly 15% depreciation of the rand in the year to date, the balance of payments position should not prevent an easing in monetary policy.

The cumulative trade balance for the year has a deficit of R622,5m compared with the surplus of R3,9bn in the corresponding period last year.

The decline in export performance is seen more as a function of the depressed state of the world economy.

Last month, the value of imports declined R152,2m. This was attributed to the weakness of the domestic economy, particularly in the wake of the sharp rise in interest rates, which finally began to suppress demand for imports.

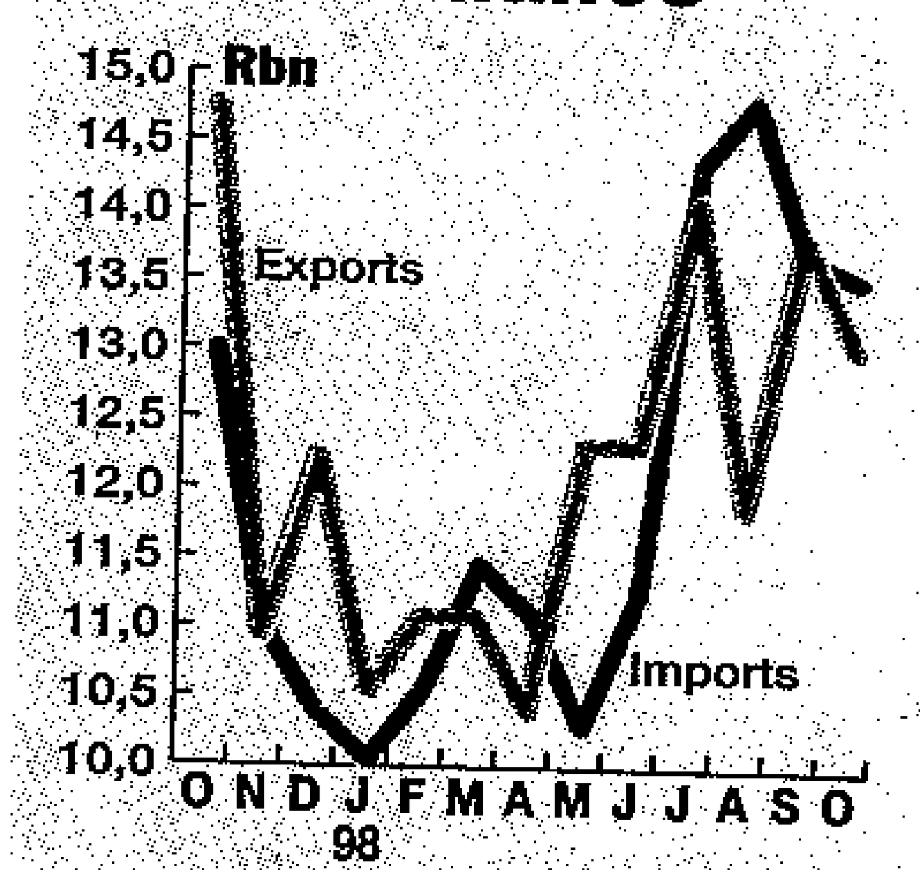
Fedsure economic analyst Steven Brown said SA would end up with a trade deficit much larger than the market expected for the year.

Any optimism about SA's sound economic fundamentals should be tempered, given the picture of the trade balance. A rapid easing of monetary policy should be deferred in view of the volatility in the country's exchange rate and the upward trend in the inflation figures.

ABN-Amro said it expected the situation could improve given a slowdown in domestic demand. A depreciation of the rand should have a general positive effect.



**Trade balance**




Graphic: KAREN MOOLMAN
Source: CUSTOMS & EXCISE

# Trade surplus cheers market

BD 26/1/99 (74A)

**Greta Steyn**

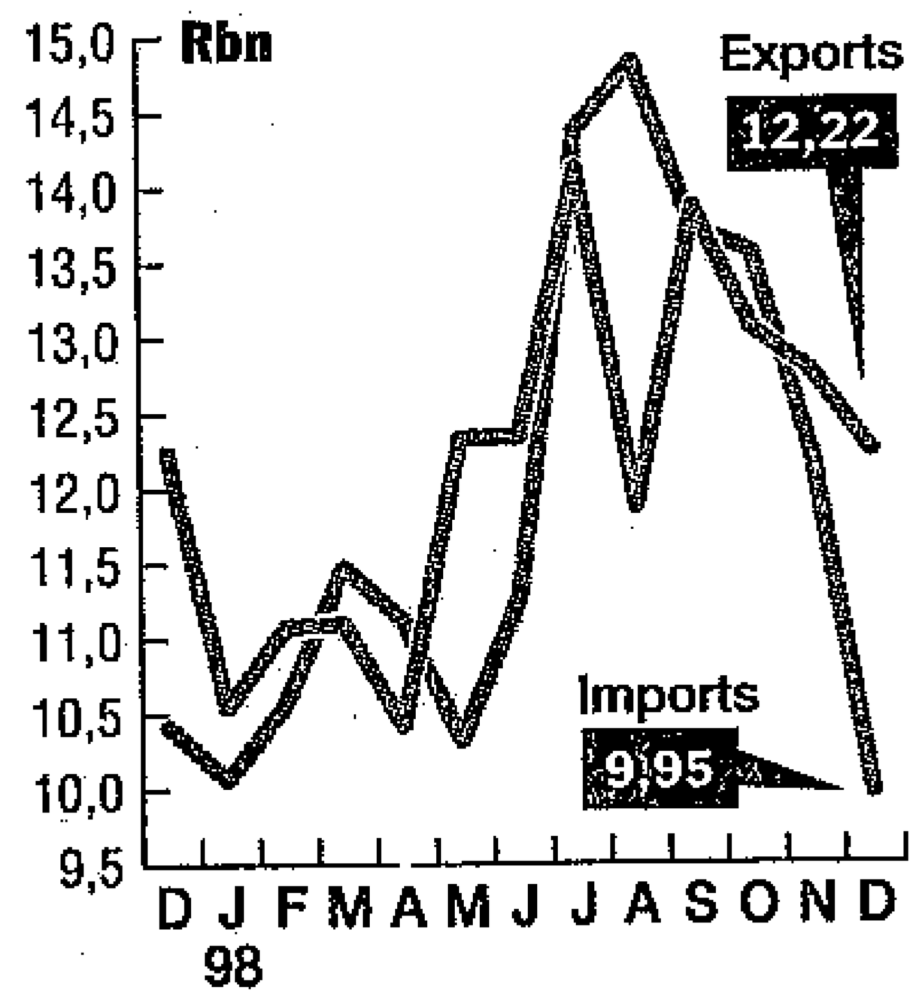
IMPORTS plummeted almost 19% last month from November's figure, pushing the trade surplus to a healthy R2,3bn as the weak rand and high interest rates dented SA's demand for foreign goods.

A healthy trade surplus comes as a relief with foreign exchange becoming increasingly scarce as foreign investors are reluctant to commit their capital to emerging markets. The revenue service's trade numbers cheered the markets late yesterday, lifting the gloom caused by weak Asian markets, fears that China might devalue its currency and jitters about SA's political situation in the wake of the violence in KwaZulu-Natal.

Economists had forecast the surplus to be little changed from November's R548m. The main impetus for the improvement came from a sharp fall in imports, which until the fourth quarter of last year remained stubbornly high. Last month's fall signalled a substantial turnaround from the big trade deficit notched up in the third quarter last year. The December number rescued the year from a deficit, taking the year's total trade balance to a R2,2bn surplus. The surplus was more than 50% down on 1997's figure.

Imports fell to R9,95bn in December from R12,21bn in November, while exports slipped to R12,22bn from R12,76bn. Economists applauded the figures but warned against reading too much into them, as last month was seasonally a good month for the trade balance.

**Trade balance**




KAREN MOOLMAN Source: CUSTOMS & EXCISE

"We have seen a major fall-off in imports, which is in line with a very weak economy. But it is by no means clear that the drop in imports is sustainable," said Nedcor economist Kevin Lings.

A healthy trade surplus is important, as it means the current account deficit will be lower. The current account deficit — the trade balance less net foreign payments for "invisibles" such as freight, insurance, dividends and interest — is financed by foreign capital inflows. If inflows are not large enough, the country has to dip into its forex reserves.

Lings believes the current account deficit will worsen this year. However, Rand Merchant Bank economist Julia Roy said: "The current account deficit will improve as imports continue to slow down. On the exports side, we cannot be optimistic, as weak global growth and low commodity prices will restrain international demand." She put the current account deficit at about R10bn, while Lings estimated the deficit at just below R16bn.

**Samantha Enslin** reports that the trade data helped the rand, bonds and equities turn around yesterday after SA markets opened weaker. Inspired by the trade data the rand closed just more than 1c weaker at R6,04 to the dollar against R6,13 in morning trade. Government's R150 bond ended 20 basis points firmer at a 15,93% yield from an earlier 16,27% yield. The Johannesburg Stock Exchange's all share index closed nine points weaker at 5 581 after an earlier 1% loss.

*December data confounds economists*

# Trade surplus surges more than fourfold

CT (BR) 26/1/99 (74A)

**Matt Getz**

Markets Editor

Johannesburg — South Africa's trade surplus in December confounded analysts, jumping more than fourfold to a record R2,27 billion, but economists warned it would be unwise to read too much into one month's figures.

The surplus came more from a drop in imports than from export growth. Imports in the month were R9,95 billion, 18 percent below November's figures. The comparative drop in exports was 5 percent.

A Reuters poll of eight economists had forecast a surplus of R556 million.

"The monthly figures tend to be lumpy and erratic," said Bruce Donald, the gilts analyst at Merrill Lynch in Johannesburg.

"Overall, the principal reason for the explosion is the drop in imports. From the fall in transport and machinery imports, it looks as if parastatal support for imports and investment was being unwound from the numbers in December."

The regional breakdown showed the strong effect the Asian crisis has had on trade. Imports from Asia rose 65 percent from the same month in 1997 to R5 billion, as the depreciation of their currencies against the rand started to take effect. Conversely, exports fell 47 percent to R1,2 billion.

The export figures are hard to categorise because more than one-quarter of them consisted of "other unclassified goods and balance-of-payments adjustments", as reported by the South African Revenue Service (SARS).

There are also discrepancies between SARS figures and those provided by the Reserve Bank.

For 1997, said Francois Fouché, the chief economist at Absa Securities, SARS reported a surplus of R4,6 billion, almost half the Bank's figure of R9,1 billion.

For last year as a whole, the surplus amounted to R2,19 billion, but that figure is subject to revisions.

"These are preliminary statistics," said Christo Henning, a spokesman for SARS. "As we go through the year, we keep amending the statistics. Some take up to two years (to become final)."

Still, most economists said the trend was not unexpected.

"That we suddenly have such a large surplus is surprising, but that we have a surplus is not," said Kevin Lings, a senior economist at Nedcor. "The economy is weak, spending is low and inventories are falling. What's more, we have very few capital expenditure projects going."

But the difficulty of trusting the figures means economists have widely varying estimates for the 1998 current account deficit. BoE Securities thinks it was R10 billion, Absa Securities says R12 billion, Nedcor R16 billion.

They are all agreed, however, that the deficit is not large enough to place real pressure on the rand, and that it will come down this year.

Herman van Papendorp and Klaus Bauknecht, BoE Securities' economics team, think the deficit, consisting mainly of a deficit on the inelastic services account, will fall to R8,6 billion this year, roughly 1 percent of gross domestic product.

"With expected capital inflows of around R10 billion in 1999, the anticipated current account deficit should thus allow reserves to be accumulated during the year," said the team.

# Surplus takes a giant leap

(74A)

**JOHANNESBURG:** The country's trade surplus in December confounded analysts, jumping more than fourfold to a record R2,27 billion, but economists warned it would be unwise to read too much into one month's figures.

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BD 26/1/99

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● See Business Report

# Planes bring trade figures to earth

Greta Steyn and Reuter

(74A)

EUPHORIA over SA's bumper trade surplus of R2,3bn in December was tempered yesterday by the news that aircraft imports to the tune of R2,1bn had not been included in the figures.

A customs and excise official said yesterday the aircraft would be included in January's figures. Economists said this could wipe out the surplus and push the trade balance back into deficit.

ING Barings economist Kristina Quattek said imports of capital goods, such as aircraft, would keep SA's import bill high this year despite the rand's depreciation and high interest rates. She said it was possible that there would be further aircraft imports this year. Also swelling capital goods imports would be imports of computer hardware to beat the Y2K bug, Telkom's roll out of telecommunications infrastructure and the start of SA's defence packages.

Quattek also said the Reserve Bank might include the aircraft imports in last year's figures, instead of this year's, which would result in a big discrepancy between the Bank's and customs and excise's numbers.

Economists often complain about discrepancies between the Bank and government's figures, for which there are not always ready explanations such as the aircraft purchases.

Sanlam economist Jac Laubscher said capital goods imports could not be switched on and off easily as there was a long lead time between decisions being made and the delivery of the goods. In some cases, the imports of these goods would lead to increased foreign exchange earnings for SA. The aircraft could handle greater numbers of tourists and increase earnings.

*Internet figures were leaked, traders say*

# Trade surplus surpasses all expectations

CT (BR) 26/2/99 (74 A)

ZINTLE FILTANE

Johannesburg — Figures released by the South African Revenue Service on the Internet yesterday showed a much better than expected trade surplus in January.

The country recorded a January trade surplus of R919,2 million after a R2,27 billion surplus in December. This was despite the inclusion of Boeing imports by SAA last year for R2,1 billion in January's data.

Analysts expected a R700 million deficit. Markets immediately took heart, with bonds in the lead. The yield on the R150 bond dropped to 14,24 percent, last seen in June 1998.

But the release of the data was not without controversy, as some bond traders said the figures were leaked to selected players.

One trader said now that insider trading legislation was in place, "when are they going to do something about it?". The figures, released at 3.15pm yesterday, were expected at 2pm.

Christo Henning, a spokesman for the revenue service, said: "According to our technical team, the data was released at 14h00."

He said he would investigate and if any of the figures had been released before 2pm, measures would be taken against the perpetrators because of the strict and sensitive embargo on the release of the data.

"It is completely unacceptable (if the figures were released early) and the commissioner will immediately take the necessary steps."

Analysts said the data would help dictate the direction of short-term interest rates and increase demand for the rand. The currency strengthened to R6,18 against the dollar from R6,19, and to R9,9059 from R9,9081 against the pound.

Exports rose 6,2 percent month-on-month to R12,98 billion, ending a three month streak of declines. Mineral products were the biggest gainer.

Imports rose 21,2 percent month-on-month to R12,06 billion, including the Boeing imports figure. Without this, the total would have been virtually unchanged from December's level, said economists.

They said imports had declined for four consecutive months prior to January, with the weaker exchange rate and high interest rates slowing overall demand. But they said certain large capital imports were keeping imports at higher levels than expected.

Economists agreed that the data meant the country's economic status was changing for the better.

Rudolf Gouws, the chief economist at Rand Merchant Bank, said: "The figures raise the prospect of a much improved current account in the first quarter."

The stock market recovered most of its earlier losses but still closed in negative territory.

Dealers said yesterday's features included Regal Treasury, a banking sector listing, which listed yesterday at R9 and lost 156c to R7,56. This indicated lower than expected market support.

Q Mart, a consumer services company, listed on the JSE's Development Capital board yesterday. It gained 25c from its opening share price of 50c to 75c a share, indicating better than expected market support.

The all share index lost 1,1 points to 5940,7. The financial index shed 61,8 points to 9004,3.

# Trade surplus fuels hopes of a rate cut

BD 26/2/99 (74A)

## Economists effusive, but with commodity prices low, export outlook is not rosy

**Greta Steyn**

SA's trade balance defied expectations of a deficit in January by notching up a surplus of R919m, further fuelling expectations that banks would cut their prime overdraft rates again soon.

January's trade surplus, down from December's bumper R2,27bn, is astonishing because the numbers include aircraft imports worth about R2bn. As a result of the aeroplane purchases, economists expected a deficit of about R700m.

Excluding the aircraft, imports were virtually unchanged — further proof that last year's rand depreciation and extremely high interest rates have crushed domestic demand. The trade number follows gross domestic product (GDP) figures released earlier this week showing there was virtually no growth last year.

The surprise surplus provided a fillip to the rand and boosted bullish sentiment on interest rates in the bond market.

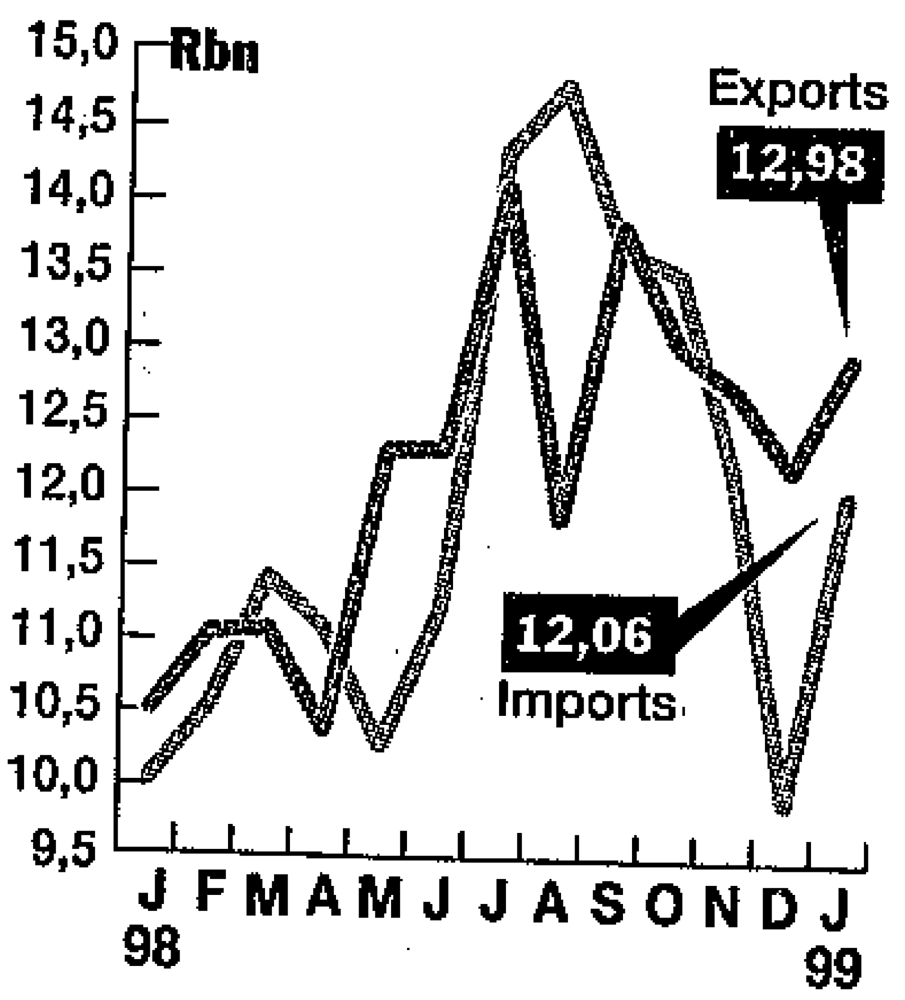
A trade surplus is good news for interest rates, as it means less foreign capital is needed to finance the country's current account deficit. When foreign capital is scarce, interest rates have to be high to attract enough inflow to cover the current account deficit.

The current account is the trade balance less net payments for invisibles such as interest, dividends and insurance.

Rand Merchant Bank economist Rudolf Gouws said the figure was impressive. "It suggests there is an underlying improvement in the current account."

Other economists were effusive, but FBC Fidelity's Mike Schüssler said although it was a good start, he remained wary. With commodity prices low, the outlook for SA's exports was not rosy. Imports could pick up again as a result of Telkom's infrastructure programme.

### Trade balance




KAREN MOOLMAN Source: CUSTOMS & EXCISE

Imports surged from R9,95bn in December to R12,06bn in January as a result of the Boeing purchases.

Standard Bank economist Bruce Teubes said that if the planes were excluded, imports would have been virtually unchanged from December. For four consecutive months before January, imports had declined on a month-on-month basis. The largest declines in January from December were recorded for machinery, which fell 12%, and mineral products, down 22%.

Oil imports are included under mineral products, with SA benefiting substantially from the fall in the price of oil. But the factors that have depressed oil prices have pulled down the prices of some of SA's major exports, such as minerals and base metals.

Nevertheless, some recovery in exports was evident in January's numbers. On a month-on-month basis, exports of minerals and base metals surged, helping overall exports to end a three-month spell of declines. Exports rose from R12,22bn in December to R12,98bn last month.

Schüssler said month-on-month comparisons tended to be erratic. January's exports, compared with year-earlier figures, showed a weak performance by commodity-linked exports. By contrast, exports of manufactured goods were doing particularly well, rising almost 38% in January against year-earlier figures. The increase in manufactured exports reflected the benefits of the weak rand.

Economists expect last year's current account deficit to come in at about 2% of GDP, as the Reserve Bank is likely to include the aircraft imports in the 1998 figures because the planes actually arrived in December. Economists were upbeat about an improvement in the deficit this year, saying it could come in at 1,5% of GDP or even lower. The figure is closely watched by foreign investors as an indicator of the rand's likely behaviour.

Euphoria over the numbers was blighted by the fact that they were inadvertently released a day ahead of schedule. Not all market participants were aware of the fact that the numbers had been posted on the internet, and as a result could have lost some money in the ensuing reaction in the bond and currency markets. Customs and excise ascribed the early release to a communication problem.

# Balance of payments increases to R17,8-bn

(74A) Sowetan 9/12/98

By Shadrack Mashalaba

SOUTH Africa's current account of the balance of payments increased to R17,8 billion in the third quarter of 1998, according to the quarterly bulletin released by the South African Reserve Bank yesterday.

The deficit in current account – the difference in value of imported and exported goods and services – in the second quarter was fixed at R5,7 billion.

According to the report, the balance on the current account will initially deteriorate after currency depreciation and is expected to improve only after some delay.

In the first quarter, deficit on the current account totalled R10,1 billion, compared with R5,7 billion in the corresponding period of 1997.

A sharp rise in the value of merchandise imports was the main factor responsible for the deterioration in the balance on the current account in the third quarter, said the bulletin.

The capital account – which shows transactions of capital nature – also showed a turnaround as a result of one of the many repercussions of the turbulence in the international financial markets and the sharp decline in the external value of the rand.

The bulletin also shows that owing to the sharp depreciation of the rand against the dollar in the first half of 1998, the rand value of total external debt rose from R190,8 billion at the end of 1997 to R228,9 billion at the end of June 1998.

Like in the past, the report shows that the national propensity to save weakened further and the ratio of gross domestic saving to gross domestic product declined from 14 percent in the first two quarters of 1998 to 13 percent in the third quarter.

"This low savings ratio, which is insufficient for the investment and development needs of the economy, was the result of increased dissaving by general Government and weaker, though still positive, saving by the private sector," said the bank.

Government net dissaving deteriorated from R22 billion in the first two quarters of 1998 to R25,5 billion in the third quarter, and as a percentage this deteriorated from three percent in the first half of 1998 to four percent in the third quarter.

On the employment front, there was a further decline in the formal sector of the economy over the past two to three years as a result of steps taken by domestic private sector producers who faced strong demands for higher real wages in an increasingly competitive international arena.

The bulletin said: "Economic growth without job creation has been a troubling aspect of the South African economy over the past three years."

# SA has trade surplus but economists warn of slippage

SA POSTED a substantial trade surplus in March that took the markets by surprise, with exports exceeding imports by almost R2,5bn, according to data released on Friday.

Economists welcomed the numbers, but warned that the party will soon be over, because the trade figures are expected to slip back into deficit territory in the next few months.

The figures showed a March trade surplus of R2,417bn versus R1,283bn in February for a cumulative surplus of R4,619bn in the first quarter of 1999.

A Reuter consensus poll of economists forecast a surplus of R830m in March.

"It is very positive. Overall it adds to the positive tone in our fundamentals," said Noelani King, an economist at SG Frankel Pollak.

"I think that we are going to see a run on bonds and probably on the rand ... This changes the whole picture," said Mike Schüssler, an economist at FBC Merchant Bank.

Bonds ticked firmer on the news, with yields on the key R150 bond dipping to 14,15% compared with 14,19% earlier, but they soon pulled back to 14,18%.

The rand held steady to be last bid at R6,1165 to the dollar, while the equity market was cheered by the news, with the all share index extending its slight gains to be 40,4 points higher at 6 780,9 compared with about 25 points up when the data was released.

Analysts saw an increase in demand from Asia as one of the positive factors behind the data. SA exports to Asia were up 28% year-on-year in the first quarter.

But the news was not all good: it also underlined the recession-induced slump in SA consumer demand.

Nor is the trend expected to last.

"We haven't seen the impact on crude oil prices yet," said Peter Worthington, an economist with JP Morgan. "We see the current account deficit slipping into the red in the middle of the year as the economy picks up and as the effect of the rise in crude oil prices is felt."

"Every $1 increase in the oil price adds about 0,15% to the current deficit to gross domestic product ratio," said Bruce Teubes, an economist at Standard Bank. —Reuter.

BD 26/4/99 (74A)

with the FINANCIAL TIMES worldwide

# SA racks up surplus with US

BD 26/5/99 (74A)

## Trade figures' move into the black attributed to 15% slump in imports

Simon Barber

WASHINGTON — SA ran an unprecedented $112m surplus in its trade with the US in the first quarter as low growth translated into slumping imports of American goods in virtually every category, according to new commerce department data.

However, in spite of the weak rand, SA's exports to the US, dominated by platinum group metals and steel, showed little growth, up a meagre 1% from the year-earlier quarter to $727m after growing at an average annual rate of 11% between 1994 and 1998.

The SA surplus was almost entirely accounted for by reduced imports from the US, which were down 15% on figures a year ago to $615m.

Hampering SA's export growth, many categories of SA steel appeared to be taking a hit from US anti-dumping suits, or the threat of them. For example, shipments of flat-rolled stainless steel 600mm or more wide were down to $4,6m from $17m in the first quarter of 1998, reflecting dumping proceedings against Columbus Stainless.

Overall, US imports of SA steel were down only modestly from $124m to $116m. The fall would have been much steeper but for growth in the value of ferroalloy shipments to $66m.

Historically the US has enjoyed substantial surpluses with SA, averaging well over $400m on an annual basis throughout the 1990s. Last year, however, the US surplus was accounted for almost entirely by SA's purchase of new Boeing jetliners valued at $539m.

US imports of SA platinum group metals fell by value in the first quarter from $253m a year ago to $232m. Sales of unwrought platinum sank from $184m to $105m.

This was offset by significant increases in the value of unwrought palladium and rhodium exports to $87m and $27m respectively and by a surge in US imports of gold bullion to $35m from $2m for all of 1998.

SA organic chemicals, clothing and aluminium all continued to post gains from low levels.

Far more striking, however, was the broad fall in SA imports of US machinery, parts, data-processing equipment, vehicles and related capital goods. Comparison between the two first quarters was not affected by the aircraft purchase, which occurred mid year.

In the past five years US exports to SA grew at an average annual rate of 14%. Last year's rate would have been close to zero but for the airliner sale.

The decline in SA imports of US goods, while to be expected given SA's stagnant growth and the reduced purchasing power of the rand compared with the dollar's, comes amid growing unease in Washington that SA may be turning to other markets.

The US trade representative has specifically raised concerns about the possible trade-diverting effects of the SA-EU free trade agreement, which is seen as rendering a wide range of US goods less competitive in SA.

SA represents half the market for US goods in sub-Saharan Africa and is the linchpin of its hopes to expand trade with the continent.

The country has moved into surplus with the US at a time when the booming US economy is running a record worldwide trade deficit — up to $64bn in the first quarter against $45bn a year earlier.

The US commerce department said last week that the US trade deficit for goods and services widened unexpectedly to $19,7bn in March despite a sharp increase in exports. The deficit was attributed to increased imports of industrial supplies and materials and a record level of car products shipped to the US.

# SA's trade surplus soars

BD 25/6/99 (74A)

**Samantha Enslin**

SA's May trade balance defied expectations by recording a R2,2bn surplus in May against an expected R800m.

Economists, who referred to the surplus as exceptional, said the rise in exports pointed to a recovery in Asian economies, with exports to that region up 20,7% year-on-year for the first five months of the year. The decline in imports underlined the weakness of the SA economy, economists said.

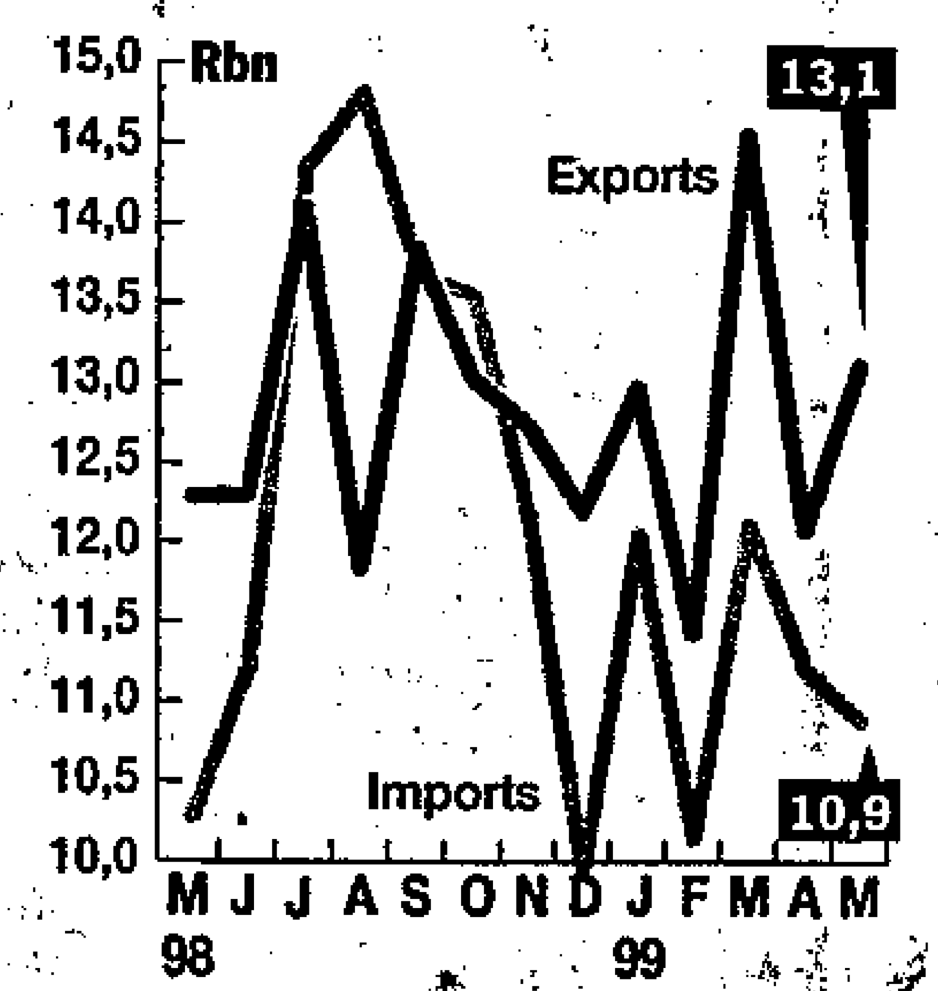
The figures were surprising in light of the weak gold price and the hike in the oil price, but certain economists believe the effects of a higher oil price on imports and a weaker gold price on exports have yet to filter through.

Exports rose 8,5% month-on-month to R13,1bn and imports declined 2,9% month-on-month to R10,9bn. The cumulative surplus for the first five months of the year is R7,71bn compared with a R3,65bn surplus for the same period last year. In dollar terms, however, SA's export performance is uninspiring. For the five months to end-May exports have declined 5,3% and imports have fallen 13,7% in dollar terms.

Standard Bank economist Leroy Smith said further declines in the export of precious metals could be expected as the lagged effect of the weak gold price kicked in.

Gold represents a substantial portion of the precious metal category and of total exports. In May the precious metals category declined 7,9% month-on-month.

**Trade balance**




KAREN MOOLMAN Source: CUSTOMS & EXCISE

A significant increase in the imports of mineral products — up 27,7% month-on-month — indicated that higher world oil prices had finally filtered through as oil made up 90% of the category, Smith said. However, other economists thought the effect of the higher oil price was still to be seen.

SG Frankel Pollak economist Noelani King said the overall drop in imports reflected the poor state of final demand, the fact that inventories were being held at minimal levels and the limited nature of fixed investment.

But as interest rates continued to decline, domestic demand was expected to pick up and so would imports.

King said the effects of higher import demand could be compounded by lower export proceeds as the effects of the weaker gold price were seen. The decline in the gold price, which contributes about 17% to exports, will have other effects on the domestic economy through job losses that will affect consumer spending.

Economists expect the current account in the first quarter to be in a surplus after the release of yesterday's data and think it is likely the current account in the second quarter will also show a surplus. The current account is the trade balance less net payments for invisible items such as interest, dividends and insurance. However, in the second half of the year the current account is expected to deteriorate.

JP Morgan economist Peter Worthington said the effects of a lower gold price, the higher cost of oil imports and an increase in maize imports, combined with an increase in demand as the economy picked up, would see the current account deteriorate in the second half of the year.

The rand, bonds and equities failed to move firmer on the positive trade balance. Instead the rand closed 3,9c weaker against the dollar at R6,0570. Dealers said there were signs that the Reserve Bank was buying dollars.

Concern over a hike in US interest rates nudged the government's R150 bond 7,5 basis points weaker to a 14,645% yield in thin trade, and the Johannesburg Stock Exchange's all share index fell 26 points to 6 981.

# Police mull team to target Nigerians

BD 25/6/99

**Jonny Steinberg**

THE SA Police Service is considering forming a national investigative team to hone in on the Nigerian underworld, which is believed to be behind the recent spate of kidnappings of businessmen, a senior detective said yesterday.

Police have arrested 10 people in connection with the kidnapping of foreign and local businessmen in the past four months.

The detective said the modus operandi of SA's emerging kidnapping syndicates was less severe than in cities like Mumbai and Mexico City, where kidnapping is as feared as car hijacking in Johannesburg. "In Mexico City kidnappings are brazen and carefree.

"A syndicate will randomly choose a moderately successful professional, follow him for a few days, take him off the street and demand ransom. The syndicates are brazen because large areas of the city are no-go zones for security forces and the victim can be safely hoarded and exchanged in areas ruled by the underworld."

In SA syndicates were more afraid of the law and more cautious about who they targeted, the detective said. "In the vast majority of cases, the victim is a foreign businessman who is lured to SA to make a shady deal. If he goes to the police, he could face criminal charges. The syndicates believe his family will quietly pay the ransom without getting the authorities involved.

"Given the level of caution involved, it is unlikely we will see a kidnapping epidemic in SA, in which ordinary people get pulled off the streets."

Regarding setting up a team to investigate the Nigerian underworld, the detective said: "We are learning in the detective service that it is not always wise to set up units which specialise in specific crimes. Sometimes it is more appropriate to hone in on people and organisations. The Nigerian underworld in SA is a large, interlocking network involved in several crimes. In these circumstances, a crime-specific task team would not be effective."

*Surplus could enable another interest rate drop without putting pressure on the rand*

# Trade surplus leaps from R870m to R2,2bn in a month

(74A)

CT (MR) 25/6/99

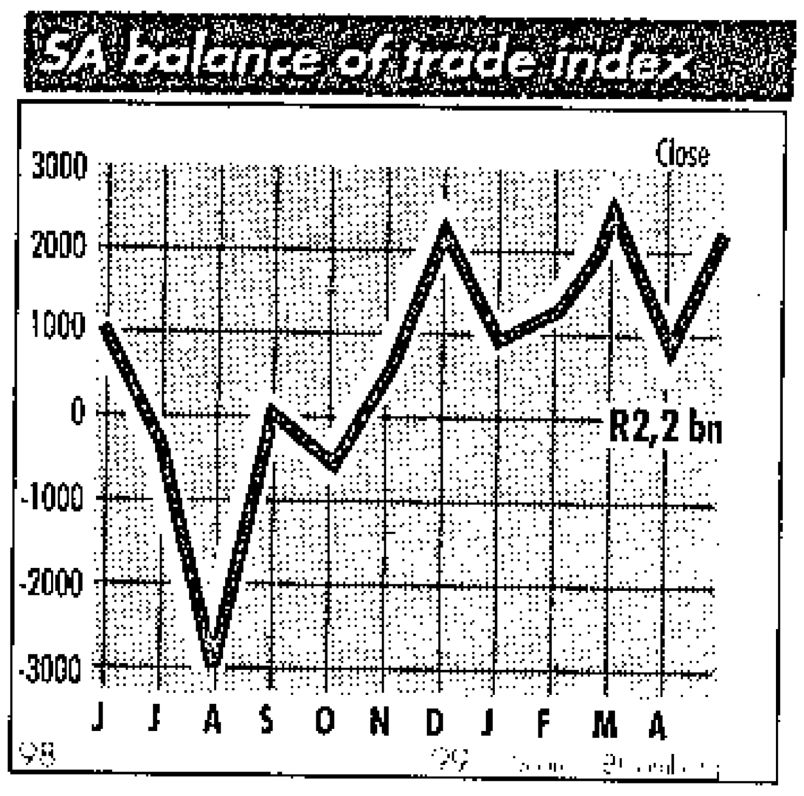
**LUKANYO MNYANDA**
ECONOMICS EDITOR

Johannesburg - South Africa's trade surplus leapt to R2,2 billion in May from R870 million in April as a sluggish economy saw imports sag and exports respond to higher demand from east Asia and Europe, the South African Revenue Service (Sars) revealed yesterday.

Economists, who were expecting a surplus close to R800 million, said the figures could enable interest rates to fall further without putting pressure on the rand.

"This adds to the other positive figures we have had recently, and means rates can come down without putting additional pressure on the rand," said Noelani King, an economist at SG Frankel Pollak.

But the bond market ignored the figure and went downwards in sympathy with the US market, where fears that the Federal Reserve might raise interest rates by up to 50 basis points next week pushed the yields on treasury bonds to record highs.




Harnia Farhan, an economist at FBC Fidelity Bank, said the bond market would remain jittery until the Federal Open Market Committee's meeting on Tuesday and Wednesday.

According to the Sars figures, imports fell 2,9 percent month on month to R10,9 billion while exports increased by 8,5 percent to R13,1 billion, leaving the cumulative surplus for the year so far at R7,7 billion against R3,7 billion in the same period last year.

Standard Bank's economic division said exports to Asia were up 20 percent year on year for the first five months of the year, a confirmation that Asian economies were turning the corner.

Kristina Quattek, an economist at ING Barings, said the low imports were a reflection of the underlying weakness in the economy, while the 32 percent month-on-month growth in the import of "mineral products" reflected the sharp rise in oil prices.

Peter Worthington, an economist at JP Morgan, said the improved trade performance was related more to "import compression" than export growth.

Economists were confident the trade account would remain in the black during the second quarter, but would move into negative territory from this quarter onwards. This was based on the lower gold price exerting downward pressure on exports and imports reflecting the impact of higher oil prices and a better economic performance.

Pre-millennium spending in the last quarter was also expected to help imports.

But the economists expected the current account deficit for the year as a whole to shrink to below R10 billion from just over R14 billion last year.

ABN Amro economist Johan Rossouw said it could reach R7 billion while, on the upper end of estimates, ING's Quattek said it should reach R10,5 billion.

# Current account shows surprise R6,2 billion surplus

CT (BR) 30/6/99 (74A)

LUKANYO MNYANDA
ECONOMICS EDITOR

Johannesburg – Prospects for further interest rate cuts were boosted yesterday when the Reserve Bank released data showing South Africa had recorded a surprisingly large surplus on the current account of the balance of payments in the first quarter.

According to the latest Reserve Bank quarterly bulletin, the country had managed to turn the R19,8 billion deficit of the third quarter of 1998 into a seasonally adjusted and annualised surplus of R6,2 billion in the first quarter of this year, mainly on a sharp decline in imports and "an equally impressive" rise in exports.

"This figure is in favour of the rand being stable. The markets will now be focused on interest rates," said Colen Garrow, an economist at ABN Amro.

The report was released after the markets had closed, but the rand strengthened by more than 2c to the dollar to close at R6,03 yesterday. Economists said the rand should strengthen further this morning, with some saying it could test the R6 level.

Although the current account figures bode well for the currency and bond markets, adding to optimism that prime lending rates would fall to 17 percent before August, economists said this was yet more evidence that the economy was in the doldrums.

The surplus had been achieved on a positive trade performance, which was due more to slumping imports than the recovery in exports.

South Africa's trade performance had also benefited from the economic recovery in Asia, with the share of exports to the region increasing to 19,3 percent compared with 14,6 percent in the previous quarter.

Economists said the current account would turn negative in the second half because of higher oil prices, the decline in the gold price and an expected increase in imports as the economy started to recover in the third quarter.

Most economists expect the deficit for the year to be below R10 billion compared with R13,5 billion last year.

# BoP leaps into surplus

BD 30/6/99

## Healthy current and capital account balances lower exposure to risk of fluctuating exchange rate

(74A)

Samantha Enslin

WEAK domestic demand and the beginnings of a recovery in southeast Asian economies helped SA post a sharp reversal in the deficit on the current account of the balance of payments (BoP) to a surplus in the first quarter.

The latest Reserve Bank Quarterly Bulletin, released yesterday, showed on a seasonally adjusted and annualised basis a current account surplus of R6,2bn from a deficit of R18,45bn and R19,8bn in the third and fourth quarters respectively. The current account is the trade balance less net payments for invisibles such as interest, dividends and insurance.

All further figures are seasonally adjusted and annualised unless otherwise stated.

Last year the current account showed a deficit of R11,6bn.

A healthy surplus was also seen on the capital account as portfolio investment flows strengthened and direct investment flows resumed, the Bank said.

"Together the surpluses on the current and financial accounts of the balance of payments occasioned a sizeable increase in SA's reserves. This contributed to a reduction in the net open position in foreign currency of the Reserve Bank ... lowering the exposure to risk that might arise from fluctuations in the exchange rate."

The rand firmed 1,6c against the dollar to R6,0290 in evening trade and government's R150 bond firmed two basis points to a 14,58% yield.

ABN Amro Securities economist Johan Rossouw said that with hindsight, the inflows explained the rand's relatively strong performance.

For the first time portfolio investment flows and direct foreign investment flows were reported as separate items. In the first quarter inflows from nonresidents' portfolio investments stood at R10,9bn from an inflow of R2,5bn in the fourth quarter.

Foreign direct investment showed an inflow of R2bn from a fourth quarter decline of R400m, but this was offset by an outflow of R4,3bn in direct investment assets, largely driven by SA mining companies seeking to expand their activities abroad.

The decline in imports reflected a sharp fall in gross domestic expenditure and the higher cost of imports due to a weaker exchange rate, while SA's export performance improved on the fledgling recovery in southeast Asia.

SA exports to Asian countries as a percentage of total exports increased 19,3% in the first quarter from a decline of 17,9% in the fourth quarter of last year. Exports increased 11,9% to R149,1bn on an increase in mining, agriculture and manufactured products.

A fall of 10,2% to R142,4bn in imported goods in the first quarter of the year was largely attributable to declines in the machinery and electrical equipment and vehicles and transport equipment categories. The declines reflected the fall in fixed investment and the weak demand for durable consumer goods, the Bank said.

A sharp decline in parastatals' capital spending in the first quarter of the year aggravated a weak undertone in other components of expenditure, leading to a 12,5% annual decline in real gross domestic expenditure.

The data released yesterday was published in line with the new national system of accounts subscribed by the United Nations.

The same system was applied to this year's first quarter and revised 1998 gross domestic product (GDP) figures, which were released last week.

In terms of the revisions, new estimates for SA households' expenditure in 1998 are R465bn against a previous estimate of R396bn. Government's estimated expenditure is R149bn against a previous estimate of R140bn. The new estimate for expenditure on gross domestic product (GDP at market prices) is R739bn against a previous estimate of R645bn.

The Bank said that as a substantially better balanced macroeconomic picture had been achieved by midyear and investor sentiment towards emerging markets improved, SA was likely to continue benefiting from capital flows from mature financial markets.

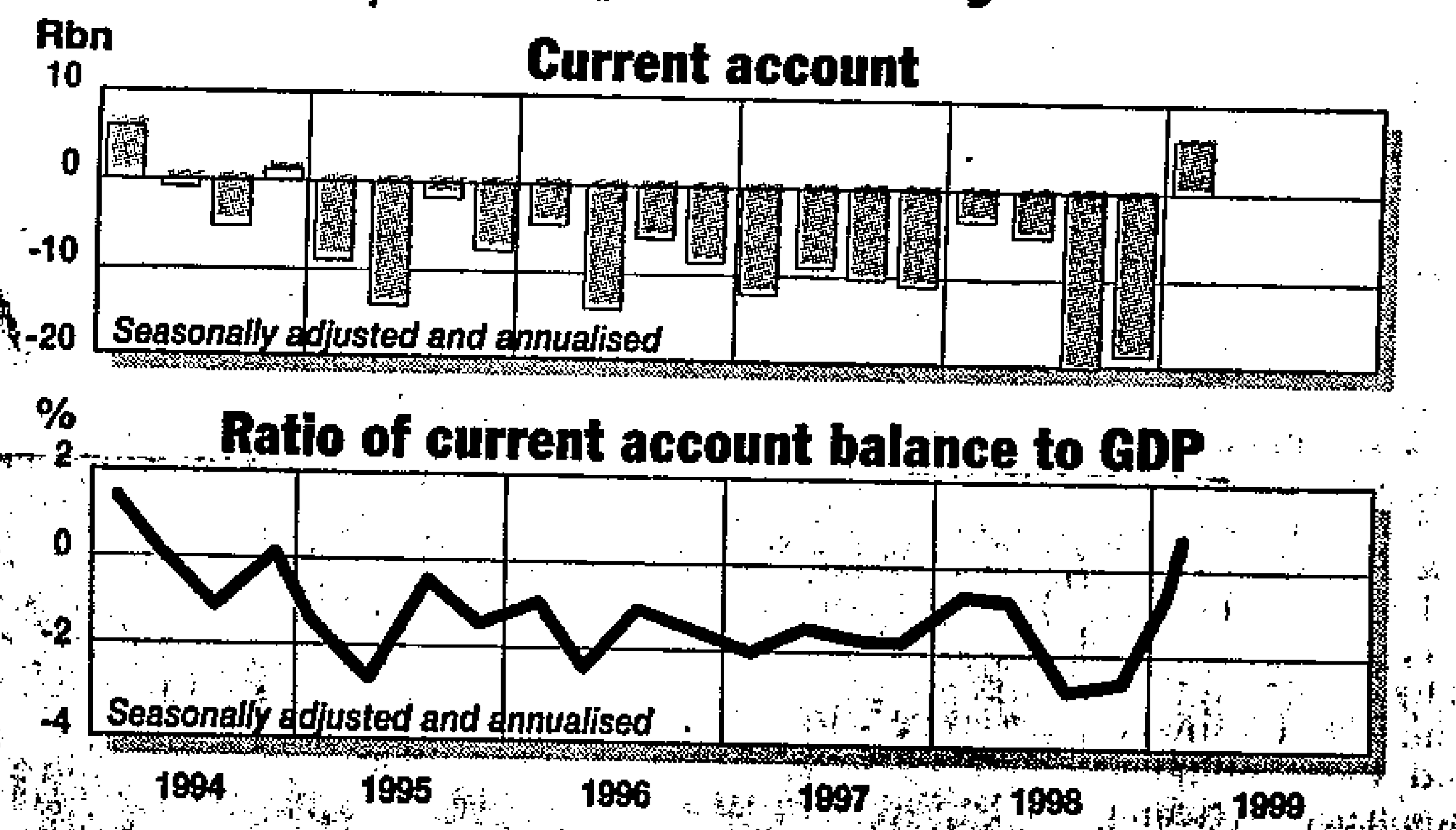
These factors held the promise of a stronger recovery in the second half of 1999, which would probably spill over into the new millennium, the Bank said.

Economists agree that from the second half of this year the economy will pick up. Although they expect the current account to remain in surplus in the second quarter, they expect it to begin deteriorating in the second half of the year as the economy picks up.

JP Morgan economist Peter Worthington said the lower gold price would affect export proceeds while maize imports and the higher oil price would see imports rise in the second half of the year, negatively affecting the current account.

Rossouw said that should domestic demand pick up and with SA's high propensity to import, a deterioration in the current account in the second half could be expected.

### Sharp recovery




KAREN MOOLMAN Source: RESERVE BANK

# id enrages network rivals

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weaknesses of the other bids then decided to pull out their weakest bid and resubmit a stronger tender."

A third consortium, AfricaSpeaks, has told Satra it believes the merger "is objectionable on a number of grounds". Even if Satra was legally bound to permit the move, it would be highly unfair to every other bidder, said a spokesman.

Afrozone, Telia and Telenor have submitted a letter explaining why they believe their merger is legally permissible. Today Satra councillors and lawyers will attempt to reach a verdict.

The key may lie in the Government Gazette of June 9, which says bidding consortiums must notify Satra of changes in ownership or control. Satra must decide whether the move is a change in ownership or an unacceptable new application.

"It is not a new bid or a revised bid," argues Lennart Broman, Telia's vice-president for Africa and the Middle East. "In our bid we reserved space for a black empowerment partner. Now we have said that partner is Afrozone."

Afrozone chairman Themba Vilakazi said: "I don't think Satra could possibly say no. People say it is unfair and shouldn't be allowed, but nobody has quoted any policy it is breaking. Together we present a formidable challenge and its natural they will try to use whatever opportunity they have to eliminate competitors."

Satra's head of communications, Esta Gouws, said Satra asked other bidders for their views to be democratic. "We are not taking a unilateral decision and we want to know how the other applicants feel."

Gouws said she hoped a decision would be reached this afternoon.

# Balance of payments is key, says Bank

(74A) BD 23/7/99

THE balance of payments is the key to future SA economic prospects, economists from the SA Reserve Bank, finance ministry and private sector said at yesterday's SA Chamber of Business (Sacob) mid-year economic outlook seminar.

Johan van den Heever, deputy head of the Bank's economics department, said the first-quarter current account surplus gave SA's policymakers more flexibility in dealing with the imperative of growth and job creation.

Although the Bank was not generally in the business of forecasting for public consumption, he felt prospects were far better than last year, as some of the structural friction had been taken out of the SA economy because of globalisation and the stable policy framework. He expected a lagged response to the lowering of interest rates and inventory destocking to end only towards the end of this year.

As a result of the lagged response he expected the 12-month growth of M3 money supply to fall below the bottom of the Bank's 10% to 6% guidelines within a few months.

Based on the April 1994 pre-election jitters the demand for notes and coins would rise only about 5% to 8% above normal levels due to Y2K fears.

Richard Ketley, finance ministry chief director for macroeconomic policy, said the finance ministry had not changed its forecasts. If there were going to be any changes these would be given in the fiscal mid-year review due in October or November.

He said that although SA's level of fixed investment was still low, the efficiency of that investment had improved, in part because exchange controls had been removed and the cost of capital was now priced according to world norms.

He said trade liberalisation had to a large extent removed pricing power from domestic producers, who had to price according to the global market.

SA remained dependent on foreign inflows to supplement domestic savings, but he said European investors were bullish on SA, while US fund managers remained risk averse. These foreign inflows had been augmented by the recent listing of SA companies on foreign stock exchanges. It was finance ministry policy not to place any "speed bumps" in the path of foreign capital inflows, such as had been done by Chile.

**Johan van den Heever, deputy head of the Reserve Bank's economics department, speaking at the SA Chamber of Business's midyear economic outlook seminar in Johannesburg yesterday. He said the Reserve Bank was not in the business of forecasting for public consumption, but felt prospects had improved with globalisation and more stable economic policies.**

Picture: TREVOR SAMSON

Jim Buys, chief economist at Anglo American, said the consensus outlook for real growth this year was 0,8% and 2,9% next year. In the second half of this year the 12-month rate of headline consumer inflation would fall below 5% and could reach 2%, but core inflation would stay near 7%.

Foreign capital inflows had averaged just 2% of gross domestic product from 1994 to last year. This was less than the capital outflows of 2,5% between 1985 and 1993.

Overall he praised the government's policy performance, but the jury was still out on crime, labour legislation, efficient governance, especially in education and the fruits of the African Renaissance.

On balance, however, government and Bank policy and implementation had been positive. — I-Net Bridge.

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Picture: ROBERT BOTHA

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# SA records healthy June trade surplus

CT(BR) 29/7/99 (74A)

**Lukanyo Mnyanda**
ECONOMICS EDITOR

Johannesburg – South Africa recorded a surprisingly healthy trade surplus of R2,3 billion in June, setting the scene for a positive current account balance for the second quarter.

That boded well for the resumption of interest rate cuts from September, economists said yesterday.

While producer inflation came in above expectations at 6,4 percent and vindicated the Reserve Bank's decision to put a virtual halt to rate declines earlier in the week, economists said this was mainly caused by higher oil prices and should not change the direction of monetary policy.

South African Revenue Service data showed exports at R14,5 billion in June against imports of R12,2 billion. The resulting R2,3 billion surplus raised hopes that South Africa would have a surplus on its current account in the second quarter, after a R2 billion surplus in the first quarter.

This would be the first time since 1994 that South Africa has had a current account surplus for two consecutive quarters, which bodes well for continued rand stability and lower short term interest rates towards the year-end.

Economists expect prime rates to drop by another 1,5 percentage points and reach 15 percent by year-end.

Etienne le Roux, an economist at Rand Merchant Bank, said the cumulative surplus of R5,4 billion for second quarter implied a small current account surplus for the second quarter, hence the bank's expectations of a R2 billion deficit against almost R12 billion last year.

Peter Worthington, an economist at JP Morgan, said the most encouraging feature was the 8,6 percent annual increase in the dollar value of exports, which was a good performance considering the slump in the gold price.

But Mike Schussler, an economist at FBC Fidelity Bank, said the trade balance could swing into deficit in July as congestion in Durban could have deflated the import figure for June. He said the delays in the processing of June's imports could add as much as R1 billion to July's figure.

Statistics South Africa figures released yesterday showed the annual rate of change in the producer price index grew to 6,4 percent in June (6 percent in May), after a 1,5 percent month-on-month rise in the imported index. Imported producer inflation was 10,3 percent higher on an annual basis.

Noelani King, an economist at SG Frankel Pollak, said the June figure incorporated the full effect of the oil price rises.

"The figure for June is unlikely to influence short-term interest rate expectations for the remainder of the year," King said.

# Exports lift trade surplus to R1,9bn

ET (BR) 26/8/99 (74A)

**Lukanyo Mnyanda**
Economics Editor

Johannesburg – South Africa recorded its ninth consecutive trade surplus in July as exports continued to grow on the economic recoveries in east Asia and western Europe, the trade and industry department said yesterday.

Imports continued to lag because of the depressed local economy.

July's data were in the black to the tune of R1,9 billion and pushed the cumulative trade surplus for the first seven months of the year to R11,9 billion, more than three times the R3,6 billion recorded over the same period last year.

The figure went some way to compensating for the disappointing turnaround in the current account of the balance of payments, which slipped into negative territory in the second quarter and left a surplus of only R600 million for the first half.

Economists at BoE Securities said the trade numbers would help support the exchange rate in the short term "as concerns for increased pressure from a deteriorating current account are postponed".

The trade data showed a continuing strong performance by exports despite low commodity prices, while sluggish domestic demand kept import growth at bay. Exports have risen 12,2 percent in the first seven months of the year compared with the corresponding period last year.

Theo Janse van Rensburg, an economist at the Industrial Development Corporation, said the growth rate in exports would have been 15 percent if precious metals and stones had been excluded. He said the economic recovery in Asia meant exports to that region rose by one-quarter in the period.

Johan Rossouw, an economist at ABN Amro, said some of the benefits of the improved export performance would be eroded as the expected economic recovery in the second half pushed up imports. He expected the current account deficit to be at R7 billion for the year from R11 billion last year.