

IMF

1975 - 1978

IMF gold talks today

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C. T. 10/6/75

Cape Times Correspondent
PARIS. — The interim committee of the International Monetary Fund meets here today and tomorrow for discussions which could determine the future of gold metal worth 30 000m dollars.

The committee was set up by the IMF last September to negotiate reforms to the international monetary system. It includes all the main finance ministers, and its sessions will try to resolve the continuing differences between the United States and France, which remains the most persistent critic among the developed countries of American domination of

the post-war financial system.

Also on the agenda is a meeting between Britain's Chancellor of the Exchequer, Mr Denis Healey, and other Common Market finance ministers.

RECESSION

Their talks will be aimed at steering the world out of recession without running back into the inflation from which most countries are now escaping.

The IMF committee will discuss the future of the 30 000m dollars of gold as well as plans to raise the subscriptions to the IMF by about 30 percent, or 10 000m dollars, in line with the inflated growth of world trade.

Two amendments to the rules of the fund will be discussed: legalizing the fund's stocks of gold metal, and legalizing the

floating of major currencies two years ago which at present is an contravention of the rules set out in 1946.

The French have proposed that the fund's gold be returned to the countries that subscribed it at the official price of 42.22 dollars an ounce.

FRANCE

France would then add its share back to its own reserves at four times the price.

The United States's case is that the gold should be available for the fund to sell on the free market to depress the commercial price and hurt speculators while the proceeds would be available for useful purposes — to subsidize for example, the rates of interest charged on loans to help countries pay their oil bills.

World warned
MERCURY 25/8/75
about
a new
price
surge
danger

LONDON The International Monetary Fund says governments should be cautious in adopting policies to fight the world-wide recession because of the danger of another massive surge in prices.

The IMF says in its annual report out today that, even though inflationary pressures are subsiding, the world economy is still rising fast in most countries.

It says financial authorities in most countries believed the long economic slide had reached its lowest point, but it is not clear that the recession has ended.

The IMF forecasts difficult times for less developed countries many of which would have increasing problems in paying for oil and manufactured goods.

The poorest countries could expect to see their balance of payments with the rest of the

world deteriorate this year.

The report says the least developed nations would run up a deficit of about \$24,500 million in their international transactions with the industrialised and the oil-exporting countries.

These countries would need more aid from the richer nations because many were close to the limits of their ability to borrow.

In addition, the developing nations would need to have ready access to markets for their commodities and manufactured goods as the world economy expanded, the report says.

The IMF says it is encouraged that most of the Fund's 126 member nations avoided placing new restrictions on imports to deal with their own payments problems.

"It is important that vigilance be maintained in this field because of the damage to the world economy that would result from any widespread resort to restrictions," the report says.

(Sapa-Reuters.)

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IMF MEETING *FM. 29/8/75* Gold and Frelimo

A minor yet nonetheless intriguing angle likely to arise from next week's IMF meeting will be the effect that any decision on gold has on the Mozambique Convention

Under this Convention, deferred pay of Mozambican miners in SA is remitted to Lourenco Marques in the form of gold at its official price, which Frelimo can then sell on the free market at a profit. The profit, it has been estimated, could amount to anything up to R100m-R150m a year

One man's profit is, of course, another man's loss — in this case the mining companies'. Were it not for the gold clause of the Convention, the mines could sell the LM gold through the

Reserve Bank for the full free market price.

Where the IMF comes into the picture is through its regulation of the official gold price. At present the price is \$42/oz. But on Sunday the IMF's Interim Committee will meet in Washington where one of the items on the agenda is likely to be a proposal to abolish the official price altogether

If that happens, countries with official gold stocks will have to decide on a new way to value them. Probably most will follow France, which earlier this year started valuing its gold at a market-related price. Certainly, this is what SA is likely to do

And if SA values its official gold stocks at a market-related price, it will almost certainly have to change the mechanism through which it buys gold from the mines.

The present arrangement is to pay the mines the official price when the gold is delivered and the balance after the gold has been sold at the free market price in Zurich and London. Under any new

arrangement the mines would probably be paid the full market price (or at least a market-related price) as and when they deliver the gold to Pretoria

But what about the gold that goes to Mozambique? There are several options:

- 1) SA could re-negotiate the Convention. After all, the original agreement was with Portugal, not Frelimo
- 2) It could justifiably claim that the official price mentioned in the convention was now the same thing as the market price (which indeed, from the SA Treasury's point of view, it would be). In that case Mozambique would lose its windfall.
- 3) It could opt for 2, but either the Chamber of Mines or the taxpayer (or both) could (wholly or partially) make up Mozambique's loss by paying it a direct subsidy. From the Chamber's point of view, this could well be the price it has to pay for continuing to be allowed to recruit Mozambican miners. From the taxpayers' point of view, it could be the price of continued good-neighbourliness.
- 4) SA could carry on roughly as before by specifically inserting a \$42 price into the relevant clause of the Convention. In this case the Reserve Bank could buy the LM gold from the mines at \$42 and the balance at the free market price. Or it could buy all gold from the mines at the market price and then, in respect of any gold sent to LM, debit them with the difference between the market price and \$42. Or it could arrange for the Chamber itself to sell the LM gold at \$42 to Mozambique, the balance being sold to Church Square at the market price

Of course, any arrangement by which Mozambique received an explicit hand-out in return for allowing the mines to continue to recruit there, might immediately result in similar demands from other countries where recruiting takes place, like Lesotho or Botswana. If such demands were granted, mining profits would be cut sharply.

Choosing the right course will therefore be an extremely ticklish exercise in which détente will be put to the test.

IMF is still cool towards Pretoria

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Sunday TIMES

31/8/78

By COLIN CAMPBELL

WASHINGTON — South Africa won't, after all, be getting a larger percentage voting share in the International Monetary Fund and World Bank quota stake — the South African delegation to this year's meetings told me yesterday.

However South Africa is at least expected to maintain her relative position in the Fund and the World Bank while a number of other countries will slip back as they give way to allow the Opec countries an increased share of the say.

And since the Opec nations are the ones with the money, the IMF will have to listen.

The need to give the Arab oil countries more say and more votes in recognition of their sharply increased financial power in the world's monetary system has already led to intense jockeying among the member nations as each is unwilling to make the sacrifice

despite last-minute efforts to align herself with another voting bloc, was left in the economic and monetary wilderness.

At present South Africa has 1.07 per cent of the voting power at the IMF and 1.04 per cent at the World Bank.

Key

The key question of whether South Africa gets herself realigned will only come up at the executive elections. Until then, as during the past year, South Africa will be allowed to 'listen in' when matters particularly affecting her interests, such as gold, are under discussion.

The prize of a seat or at least membership of a voting bloc — South Africa shares the unwanted distinction of being unloved and in the wilderness with

Taiwan — lies in the contribution it makes to the general accounts, that is quotas.

So while Britain, for example, is expected to be virtually forced to make some room for the cash-rich Arabs, and while other established voting blocs will have to be weakened to let the Arabs take a larger slice of the cake, South Africa will have gained a distinct advantage if she merely maintains her relative position.

Rand

Ironically enough, the South African rand is used by the IMF as one of the 16 currencies that go to make up the valuation of the Special Drawing Rights, but is denied through political considerations a formal representation.

Call

The call to give the Opec countries more say has been led by the United States, which at the same time has dug in its heels about giving up any of its power.

The 20-member Board of Governors that is the overriding policeman of the fund is made up of five permanent member states — US, Britain, West Germany, France and Japan — with the other 15 joining forces in blocs.

Despite all the belly-aching, the US is expected to concede some of its percentage vote, but only so long as it retains its veto position.

At present the US has a 20.8 per cent of the vote and can effectively block anything in the IMF and World Bank with which it does not agree.

The way round this would be for the veto rules to be changed, and conference officials expect the current 20 per cent veto vote to be trimmed back to around 15 per cent.

Until last year South Africa was joined with the Australian bloc and thus was assured of a full voice at the meetings throughout the year.

But after various political moves South Africa was dropped, and



Theunis de Jongh . . . Preaching the gold gospel.

Spotlight on top gold men

WASHINGTON — Next week's privately sponsored conference in New York on "South Africa and the gold market" has attracted wide interest.

More than 400 analysts, brokers and bankers are due to attend.

The organisers claim that with its line-up of top-flight speakers from South Africa, backed up by other experts, the conference will be a first in the United States.

The principal speaker will be the Governor of the Reserve Bank, Dr Theunis de Jongh. The other two speakers who go to make up the principal platform are Robin Plumbridge, deputy chairman, Gold

Fields of South Africa and a former president of the Chamber of Mines, and Dr Robert Smit, South Africa's Ambassador to the IMF and World Bank.

Following hard on the heels of the IMF and World Bank meetings, gold is likely to be highly topical next week. The topics for discussion are: "What are South Africa's marketing plans in view of the US gold sales?"; "SDRs"; and "Labour".

The Governor's speech and that of Ambassador Smit are only being drawn up next weekend when the latest position of gold in the international monetary system has been thrashed out by the upcoming IMF and World Bank meetings.

Gold sags

on two

STHK 1/9/75

markets

Financial Editor

Gold tumbled on world bullion markets and the stock market today in reaction to announcement of plans by the International Monetary Fund to sell 25-million oz of bullion from stock to aid poorer nations.

(See Page 3).

On the key London market the price sagged to 154.25 dollars an oz on the fixing level in the wake of weekend falls that pulled it under the 160-dollar level for the first time in nearly a year.

In Zurich the price came down in line to trade between 153.50 and 155 dollars this afternoon.

London shares lost up to 150 pence apiece.

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① 82

② 155

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Gold
price
should
rise 9/9/75

Cape Times Correspondent

NEW YORK — The price of gold could move up "substantially" as a result of the new "highly significant" International Monetary Fund understanding on gold's future monetary role, the governor of the South African Reserve Bank, Dr T W de Jongh, said here yesterday.

"Far from being a step towards the phasing out of gold it clearly has the effect of giving gold an increased and more meaningful role than it has had for some time," he told a large gathering of American bankers and financiers. It was "an important step in the right direction."

Backing him up South Africa's chief IMF representative Mr Robert van S Smith argued that in fact gold had been revalued and remobilized by last week's events in Washington.

They blamed the initial bearish reaction to a "misunderstanding of the understanding" encouraged by the vagueness surrounding it, and the use of misleading phrases.

Both claimed that the provision of the sale of one-sixth of the IMF's gold for the benefit of developing countries would not depress the market and that there would be strong pressure, led by the poorer countries themselves, to realize maximum profits from the sale.

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SA will help to mould IMF gold sales policy

STAR 15/9/75

John Patten,

The Minister of Finance, Senator Owen Horwood, today indicated strongly that South Africa could have a major hand in any action the International Monetary Fund takes to sell gold.

He was speaking at a Press conference in Pretoria on his return from the annual meetings of the IMF and the World Bank at which he also held in-depth discussions

with prominent figures in the monetary, financial and banking world

Senator Horwood reiterated his continued confidence in gold and forecast that events would cause the gold price to rise again in spite of the interpretations—that gold was being phased out of the international monetary system—which was now temporarily depressing the price.

The Minister claimed the IMF plan to sell gold was no more than an understanding between the richest countries at present and inquiries had shown that the IMF still did not know how it would go about selling the gold.

TOUGH

Because of profits from the sales of one-sixth of its reserves would go to developing countries, these countries for the first time had a vested interest in keeping the price of gold high

For the IMF, selling gold would be a tough assignment. "They will have to work it out with the greatest possible care in association with South Africa, because we are by far the biggest seller of gold in the world," he said

The present depressed gold price and the IMF intention to sell gold, said

Senator Horwood did not mean there would be a change in South Africa's gold sales policy.

South African strategy in selling gold was very carefully worked out in the light of conditions of supply and demand "I cannot think there will be a change."

CONFIDENT

On a possible rise in the gold price, Senator Horwood said. "I think we must have a little patience, but I remain absolutely confident in the future of gold. We are entering a very interesting stage. I am confident the price will move up, particularly if there is further inflation"

Continuing inflation in the rest of the world — and the world was concerned about still-rising inflation in many cases — was "a good point for gold"

Dealing with the present state of the Western world's economy, Senator Horwood said there was a big contrast between South Africa and what was happening abroad.

In Western Europe and the United States people were talking about negative growth. Expectations that the American economy would soon recover, followed by Western Europe, were now being revised. The picture was very depressed

South Africa, by contrast, had a good growth rate, little unemployment, strong balance of payments and lower inflation than in other countries.

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SA move seen in U.S. as ominous sign

The Argus Bureau

WASHINGTON. — South Africa's massive rand devaluation was seen by monetary officials at the Treasury and at the International Monetary Fund as another ominous sign that the economic pressure on middle-level countries is becoming unbearable.

The annual report of the International Monetary Fund warned that the 'more developed primary producing countries' — the category which includes South Africa — faced a combined deficit on balance of payments this year of 12 000-million dollars.

The other primary producers in the same category are Australia, New Zealand, Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey and Yugoslavia.

Most are in dire trouble because the industrial powers are, in effect, passing on their oil deficits.

BEARING UP

Monetary officials showed little inclination to criticise the rand devaluation even though, until a month or so ago, South Africa seemed to be bearing up rather better than most primary producing countries.

For one thing, the pressure of oil deficits and the related recession in the major industrial countries has caused more than 100 legal devaluations, mainly among the smaller countries, in the past year.

Moreover, officials here pointed to a number of specifics in the South African situation. Among them were the weakening in the prices of commodity exports, the strengthening of the dollar against all currencies, and the weakening of sterling.

LAST STRAW

While these pressures could be absorbed by South Africa, the drop in the gold price caused by the uncertainties in the wake of the decision to sell part of the IMF gold stock was the last straw.

While officials displayed an attitude of understanding, some unofficial sources

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Argus 24/9/75

IMF may be forced to postpone gold sales

SUN. TIMES (Bus. Times) 21/12/75

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WASHINGTON. — Two roadblocks were thrown up this week that apparently mean the International Monetary Fund will have to postpone selling some of its gold to aid the poorer nations until well into next year, and possibly not until 1977.

IMF officials had hoped to iron out a final agreement on gold sales when its "Interims Committee" meets in Jamaica three weeks from now, but that may be impossible.

As a result, the Asian and African developing nations, whose economies are strangling because of higher petroleum costs, can expect little relief despite the ebullient promises from the big industrial nations at last August's meeting of the IMF and World Bank here.

The gold sale plan had the fund sell one sixth of its horde — or 25-million ounces

— to raise about \$3.5-billion. This trust fund was to have replaced the special oil facility set up last year for payments problems caused by oil prices.

Although there is nearly \$2-billion still left in that fund, it is about to be stripped clean by a \$1.7-billion loan request from Britain which, while hardly a havenot nation, nevertheless, qualifies for the borrowing.

Roadblocks

The two roadblocks, one American, the other French, also show just how hard it is to make any substantial change in the way the world

By JAMES SRODES

does business, especially when it involves something as fundamental as gold. Back in August, IMF managing director, Mr Johannes Witteveen, had predicted the fund would be selling gold by January and that another issue on the Jamaica agenda — the problem of floating exchange rates — would be hardest to settle.

But the exchange rate problem was ostensibly settled when the big six industrial nations met last month at Rambouillet, France. Now, gold, and how to sell it, is the problem.

The French objection to the IMF gold sale proposal is a mechanical one. If the fund drops 25-million ounces on to the world market, the French quite understandably worry that the price will drop disastrously. As a result, the French now have served notice on the IMF officials here, and at the White House as well, that they will block any movement toward a gold sale agreement at Jamaica unless central banks of the various nations are allowed to buy the fund's gold from the market.

Sympathises

The Ford administration sympathises with the French position, not because it shares the average Frenchman's commitment to gold but rather because the White House worries that a falling gold price will produce little profit for the fund from the sale and thereby defeat the purpose of the exercise.

But the problem is a legal one. Fund rules strictly forbid central bank purchases of gold at a price above the so-called "official" price of \$42.22 an ounce.

So, the Americans and other nations say, until the articles of agreement of the IMF are fully amended to allow central bank purchases, the gold should be sold on the open market only. The French response is that the Jamaica meeting will not be able to simply allow gold sales unless the gold can be sold through central banks at the same time. Stalemate.

Surprise

All of this could be moot because of surprise opposition to the basic idea of the gold sale from an unexpected quarter — the US Congress. This is critical since any IMF amendment to its articles of agreement must be ratified by the legislatures of the various

member nations. The United States, with its effective veto over fund votes, could in turn be hamstrung by its own legislators.

Late this week, Senator Hubert Humphrey and Representative Henry Reuss, both Democrats and the co-chairman of the Joint Economic Committee of Congress, issued an attack on the gold sales plan as a windfall for the richer nations.

Specifically, the legislators criticised a provision of the gold plan whereby yet another one-sixth of the IMF's gold would be returned to the donor nations at the old \$42.22 price. Instead, the lawmakers proposed that a full one-third of the fund's gold be sold with the profits to be strictly allocated only to the less-developed countries.

Profit

Mr Humphrey, as yet an unannounced presidential candidate, pointed to committee estimates that if 25-million ounces of IMF gold were given back to donor nations at the old price, it would mean a profit of \$570-million to the United States, \$140-million to West Germany and \$130-million to France. But nations such as Malaysia, Mauritania and Bangladesh would receive between one million dollars and \$16-million.

Instead, the profits for the industrial countries should be added to the one-sixth portion being sold outright. And since both men chair the committees through which any IMF changes must pass, their complaints represent a real upset for Ford administration plans to present a united American front in Jamaica.

IMF home for SA?

SUN. TIMES
(Bus. Times)
21/12/75 (155)

By JAMES SRODES
WASHINGTON: Is South Africa about to find a home at the International Monetary Fund?

South Africa is not a member of the IMF's "Interim Committee" on world currency and gold problems. But when the committee meets in Jamaica in three weeks, South Africa will be one of the star attractions in off-stage manoeuvrings that will be every bit as crucial as the enlarging of the fund's voting system to make room for the new Arab-OPEC block's importance.

It is on this issue, the enlargement of the IMF board of governors, that South Africa takes on a new importance. For whatever the fund members decide, enlargement means that some nations will have to give way in importance.

The five big powers, US, UK, West Germany, France and Japan have one seat each. The 15 remaining are shared by varying blocks of nations.

Scarcely two years ago Australia and New Zealand felt secure enough of their over-all vote totals to announce they would no longer represent South Africa from the seat they shared on the board. Since then, attempts to link South Africa with other national seats have been unsuccessful but that was largely because diplomats wanted to see just how many seats the Arab-OPEC block could claim.

The answer now appears that the January meeting will apportion one sure seat and possibly two to the two seats the block nations already control.

Reports surfaced late last week here that Australia's then-caretaker Fraser Government had quietly approached Pretoria about whether South Africa would like to form a new coalition. The reports also stated that Canberra offered to let South Africa occupy the alternate's position in the chair currently held by New Zealand.

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PRESS STATEMENT BY THE MINISTER OF FINANCE, SENATOR THE
HONOURABLE OWEN HORWOOD

For immediate release

The International Monetary Fund has approved a stand-by arrangement for the Government of South Africa for the equivalent of SDR 80 million or approximately R82 million, an amount equal to one-quarter of South Africa's quota in the Fund. This affords South Africa the right to make drawings of foreign currencies on the Fund up to this amount.

The negotiation of this arrangement was initiated during the routine Article VIII consultations between South Africa and the Fund held in Pretoria in November last year.

Drawings under this arrangement could be used to finance repayments of other official foreign loans or for other balance of payments purposes if necessary.

ISSUED BY THE DEPARTMENT OF INFORMATION AT
THE REQUEST OF THE MINISTRY OF FINANCE.

22 JANUARY 1976.

CAPE TOWN.

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Hansard 3 col 142 10/2/76

International Monetary Fund: Gold

*10 Mr T ARONSON asked the Minister of Finance

- (1) Whether the International Monetary Fund intends to sell part of the gold held by it, if so, (a) what part and (b) over what period,
- (2) whether he has made representations to the Fund in this regard, if so,
- (3) whether he will make a statement on the matter

†The MINISTER OF HEALTH (for the Minister of Finance)

- (1) Yes.
 - (a) One sixth.
 - (b) Four years
- (2) The Government's views in this regard were conveyed to the Fund during the discussions which preceded the relevant decision.

- (3) No I propose to keep Parliament informed of any developments in this regard

F.m. 6/8/76

IMF**Short term help**

Joep de Loor, SA's delegate to the International Monetary Fund, should have good news to report early next week. By then the IMF *probably* will have approved a SDR152m credit (SDR1 is approximately equal to R1) to help support the Republic's international payments burden. Last week the foreign reserves plunged R43m, dipping below R700m for the first time since January 1975. No real problems are expected, but De Loor is being cautious about any public statements until the cash is safely on its way back to Pretoria.

The caution is well founded. The request is SA's second borrowing this year and is nearly twice the size of the first SDR80m credit tranche drawn in January.

The second borrowing comprises SA's second credit tranche of SDR80m, plus two lots of SDR36m. In Jamaica earlier this year the poor nations demanded and won the right for all nations to increase their IMF borrowings by 45% across the board. For SA that means each credit tranche goes up from SDR80m to SDR116m.

The loan exhausts both of SA's first two lines of credit and brings the IMF Board to the question of how well Pretoria is doing to protect the balance of payments.

Even before the recent rise in Bank rate and the import deposit scheme had been announced to the South African public, De Loor had presented a copy of the detailed goals to IMF technicians and had received in turn general expressions of approval, even for the controversial 20% import deposit.

But even if the IMF Directors do not quibble about the current borrowings, De Loor certainly will be put on notice that the SA recovery programme must begin to produce substantial results. For without some progress, a third request to draw foreign currencies from the Fund will run into opposition and tougher conditions from the IMF Directors than other borrowing nations would face in the same situation. The conditions that the IMF might impose on future credit could be unpalatable to SA politicians and businessmen alike.

The Gnomes take over

F.M. 13/8/76

Because Pretoria failed in its duties, the IMF is now running SA's credit policy. That's the price of profligacy

Characteristically the Minister of Finance Senator Owen Horwood has only told part of the IMF story — the good half. As predicted in the *FM* last week SA has been granted a stand-by credit of SDR152m (R151m)

What Horwood failed to reveal were the strings attached. And those strings effectively put SA into a strait-jacket tied up tight by the Gnomes of Washington.

In other words the profligacy of this government over the past few years has helped bring SA to the point where the Cabinet has had to abdicate its own freedom of decision-making in order to keep the economy afloat. The IMF is now forcing on SA the restraints which the government should itself have seen the need to impose voluntarily.

The prime control demanded by the IMF, and volunteered by SA, is a ceiling on the growth of outstanding domestic credit.

- Total net domestic credit to government and private sector combined must be limited to a growth rate of 11,5% in the June 1976-June 1977 year. In the period just past, total credit grew at a 19% rate.

- Moreover, the net claims on banks by the government is to be held to a 13,5% growth rate in the same period. In the year just ended, growth in government bank borrowings mushroomed to a 48%

annual rate

By limiting the amount of domestic debt the government can take on, Pretoria is also of necessity limiting the amount of spending increases it can approve, for instance through Additional Estimates of Expenditure in the new year, or through new estimates in next March's Budget. Government will either have to cut spending elsewhere or raise taxes to pay for any significant new government projects or subsidies in the year ahead.

As for the 20% import deposit scheme, the IMF was not as enthusiastic about it as it earlier let on. It is indeed a protectionist ploy and the Fund has demanded and won from SA the promise that the deposits will only be imposed until February 2, 1977. This was kept secret because SA is afraid importers will postpone orders at year's end until the expiration date, and then flood SA with imports in March.

There is also a broad and related *understanding* that SA will work to reduce its foreign debts. Last year external debt grew to 17% of SA's GNP. While most industrial nations currently range between 15% and 20% in outstanding foreign debts, SA has traditionally kept to between 7% and 8% and the goal is to edge back towards that range if not actually within it.

The entire SDR152m in standby



IMF's MD Johannes Witteveen
... a tight hold on Horwood

credits will not be dished out all at once. SA can draw SDR75m right away. It may draw another SDR39m on January 15 and another SDR38m on May 15. In between drawings, the economy must produce encouraging figures generally as well as achieve targets laid down by the IMF. Otherwise the money simply won't be made available.

The big worry is what will happen to the gold price in the meantime. The IMF accepts that SA can pull its economy together under present conditions and with the restrictions on credit. But if gold drops severely during the last months of this year, the January 15 drawing could run into controversy between SA and the Fund, unless Horwood can demonstrate marked progress and improvement even in the face of a gold decline.

Certainly, there's now little chance of deflation no matter how bad business gets or how high unemployment climbs. Only a massive and early rise in export earnings or a dramatic recovery in the gold price can loosen the bonds.

And partly because the import deposit scheme will have to be abandoned in February, the March Budget will have to be another tough one.

WHERE'S HORWOOD'S OTHER MONEY COMING FROM?

Having clinched a standby at the IMF, Horwood has by no means solved the whole of SA's external debt problem.

As Economic Affairs Minister Chris Heunis admitted this week, "politically unsettled conditions" have caused a decline in the inflow of foreign funds. This has far-reaching implications, because, besides finding enough ready cash to bolster the foreign reserves, SA must also continue to attract long-term capital. But who is going to invest long-term money in SA at this juncture?

Iran? Rumours are doing the rounds in London that a \$500m gold-backed loan is being negotiated. A value of \$80 per ounce has been

suggested for the gold collateral, and a margin over Libor (London inter-bank offered rate) of as little as 1,25% has been tipped. Libor is currently about 6 $\frac{1}{8}$ % for six-months Euro-dollars.

However, a top-ranking government spokesman categorically denied that the rumours have any foundation.

Our traditional friends in Europe? The Germans and Swiss, in particular, have probably been approached. But these markets have been providing credit to SA for years now and must be close to their exposure limits.

This problem has been aggravated over the past six months by the waning of private investor enthusiasm for SA paper. As a result, some banks

have been left holding a substantial portion of the securities that would normally find their way into private portfolios. Export credits, however, are still available.

US banks? Most bankers agree that US banks — with a smattering of Canadians thrown in — are currently the best bet. The banks have vast resources and are underlent because of weak domestic loan demand. They have already been generous subscribers to nearly every medium-term credit for the public sector this year. In fact, market sources indicate that a large loan for government, currently at the negotiation stage, is being handled by the Americans.

After the meeting in Manila

JOHN CAVILL in MANILA

IF, and it is a big if, the world economy achieves the lofty targets defined at the combined International Monetary Fund-World Bank annual meeting that ended in Manila this week, South Africa faces a tough 18 months.

Yet for all that, in the words of Dr Gerhard de Kock, Deputy Governor of the Reserve Bank. "It has been rather a good meeting for us."

As speaker after speaker from the world's most powerful economies — America, Germany, Japan, France and Britain — warned that the flames of inflation are beginning to flicker again and the world cannot afford to spend its way out of recession, it became clear that South Africa may have to wait for the jam of an export-led recovery.

The tough, conservative policies so vigorously expounded by American Secretary to the Treasury William Simon boiled down to:

- Balance your books.

- If you are spending more than you earn, do not borrow the deficit but sell more externally and consume less internally.

Mr Simon's message to individual governments — Britain and Italy could well have been his targets — among the industrial nations and the world in general was put more simply by Australia's treasurer, Phillip Lynch:

"No longer can governments buy less unemployment at the expense of higher inflation."

"Governments can print money but governments cannot print jobs. It is in part the continued yielding by governments to the incessant clamour for more expenditure that has enfeebled our private sector and reduced their capacity to produce the jobs that are needed."

The dilemma of the IMF lies in South Africa's dependence for foreign exchange earnings on gold and industrial raw and semi-processed materials combined with its commitment to a massive infrastructure development, much of which has to be imported.

If inflation is curbed it will defer any rise in the price of gold.

And if inflation is to be kept at bay by slowing down demand and growth it means the rise in volume and prices of South Africa's primary industrial products, so badly needed for the export-led recovery and more important now than gold, will also be put off.

Higher oil prices seem certain after the warning by the Iranian Minister of State, Dr. Mohamed Yaghenah.

As far as the oil producers were concerned, he said, the rate of inflation they have been importing in the shape of machinery and other capital goods from the industrial countries, has been 25 percent annually — not 6 percent or so calculated by the United States. And the real price of oil has thus fallen by 33 percent since the last increase (of 15 percent).

And an oil price rise will hit hardest the poor countries who can least afford it and yet, equally, have less room for manoeuvre in reducing internal consumption.

Increased aid on easier terms from the World Bank is certain — its president, Robert McNamara, received ample assurances of the willingness of the rich to ante up — but may not be enough.

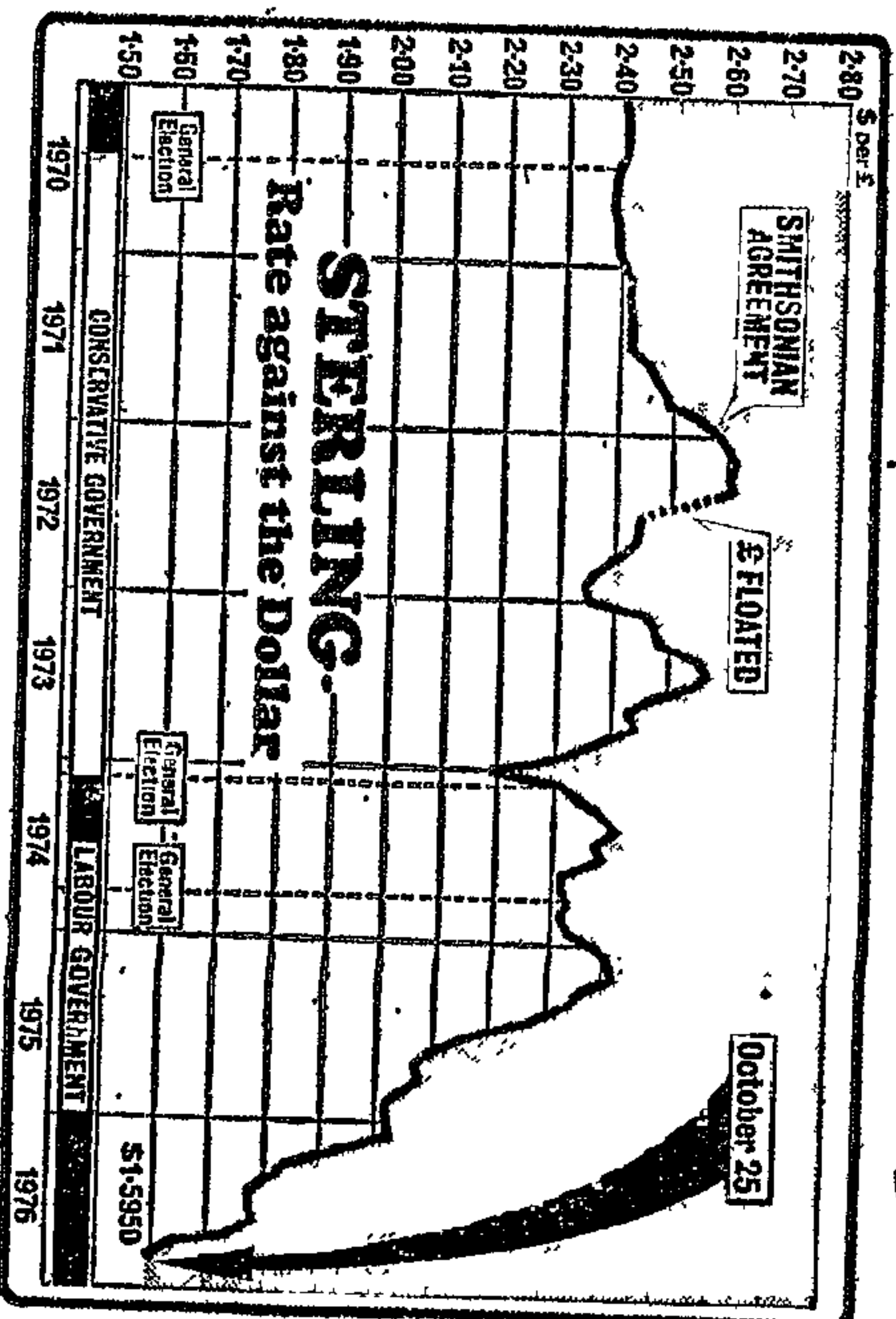
And if, for political reasons, the United States and the rest of the capitalist world is forced to change their resolute opposition to any rise in unearned world liquidity by a further increase in IMF credits by the creation of more SDRs, inflation or hyperinflation will return.

Good for gold, but probably a boom-bust scenario for industrial raw materials and economic growth on which the long-term future of South Africa depends.

Hence the quiet satisfaction evident in suite 421D, where Finance Secretary Gerald Browne and the other South African delegates worked this week, even if it does mean 12 months of nil growth in real terms for the South African economy.

The pound—why

156/58.



LONDON—Only a fool would make confident predictions about the day-to-day movement of sterling.

Indeed, there is no way of knowing whether on any particular day Mr Denis Healey will let the rate drop, or whether he will spend reserves to stop the slide.

One night, recently, a tactical decision was made not to support the rate; but it is anyone's guess how many hours the decision will stick.

There has been no coherent policy and the Chancellor has tacked between the many rival schools of thought among his advisers on a day-to-day basis.

Package

There are two key facts in the situation. One is that sterling has become a speculative currency; it is not something which people interested in stability—even a stable rate of decline—will willingly hold.

It is a reflection of the state of sterling that the slightest rumour or piece of gossip can knock the pound and have more effect than official denials.

There is something to be said for sitting out the situation and something for an early package of measures. There is nothing to be said for the

Healey technique of arguing with the market.

If there is anything that has been devalued more than sterling it has been the reassuring statement — whether made by a British Minister, the TUC General Secretary or a friendly Head of State or Minister.

Pronouncements by members of British or international establishments that sterling is undervalued are now largely counter-productive.

The second key feature is the personal devaluation of the Chancellor's utterances. This process has been going on a long time, starting even before his 1974 election remark about inflation being down to 8 percent.

But it has gathered pace in 1976. There was his Budget deal with the unions in return for tax "concessions" which were

for practical purposes countermanded by the public spending cuts and increase in National Insurance contributions announced in July, before the ink on the Finance Bill was dry.

The July measures were themselves preceded by weeks of Treasury denials that any such package was planned.

Re-entry

The loss of credibility went further with the decision in September first to withdraw from the sterling market and then the panicky re-entry into that market — coupled with Mr Healey's turnaround at London Airport in response to an all-too-likely fall in the rate.

What makes the situation worse is that the confusion and demoralisation extend from the

Chancellor to many of his leading advisers in the Treasury and Bank.

These have been uncertain and divided in their counsels; they have been belatedly and ineffectively pursuing a money supply policy at the behest of overseas opinion in which they do not have their hearts and are therefore carrying it out badly.

"Unbelievable in one placed observer puts it.

In attempting to secure the £380-million standby credit with the IMF the hope has been to negotiate an agreement with the fund by mid-November.

This agreement, together with the accompanying British internal programme, should, it is hoped, restore confidence to the sterling market. There is at least a 50-50 chance that the British Government will abandon

faith is gone

30/10/76 STC

The worsening pound crisis took another knock with the announcement by the BBC that Britain was seeking an overseas loan of £13,000-million in addition to the £3,390-million credit from the International Monetary Fund. SAMUEL BRITAN looks at the causes of the ailing pound.

this timetable in response to pressure on sterling and take action in days rather than weeks. Presumably for such action is growing in Whitehall.

Any such package would be almost certain to contain an increase in consumer taxes either via the Regulator or through specific duty increases.

If the pressure really becomes severe import duties are a front runner.

They both tighten credit and internally bring an inflow of funds across the exchanges — in both cases the benefit is temporary, and then goes into reverse, but a government in a corner will go in for short-term measures.

Curbs

Other credit restraints, such as cuts on categories of bank overdrafts, and on interest bearing eligible liabilities are on the cards.

What are the alternatives? The country may be lurching towards import control, but while negotiations with the fund are proceeding, they are low down on the list of options.

How about the other option the private line from No 10 and/or the American authorities (busy with Presidential elections)? Mere verbal support without cash on the table would be worth little, and Herr Schmidt

has nothing to spare from his own budget and is highly dependent on the Bundesbank if he is to offer worthwhile sums.

Goodwill

The most that the Germans and Americans might offer would be a statement of goodwill, saying that they would negotiate for a long-term safety net or a conversion facility for the sterling balances once the IMF deal is out of the way, and that could, in an emergency, be accelerated.

The minimum sum necessary for such an offer would be £4,347-million to replace the central bank standby which expires in December and of which at least £1,390-million has already been spent if not more.

But enthusiasts of the safety net approach believe that some £8,600 to £10,400-million would have to be committed to carry conviction.

On the most favourable assumptions these credits would carry conditions.

The most diplomatic thing for other governments to do would be to say that they are satisfied with the programme agreed with the fund.

Thus, it is not a question of IMF-imposed internal deflation versus a deal with friendly governments over the sterling balances, but both together. Things obviously cannot

continue to deteriorate at the pace of the last few weeks.

Sooner or later there will be an agreement with the IMF and a package of domestic restraint which will improve the outlook for sterling.

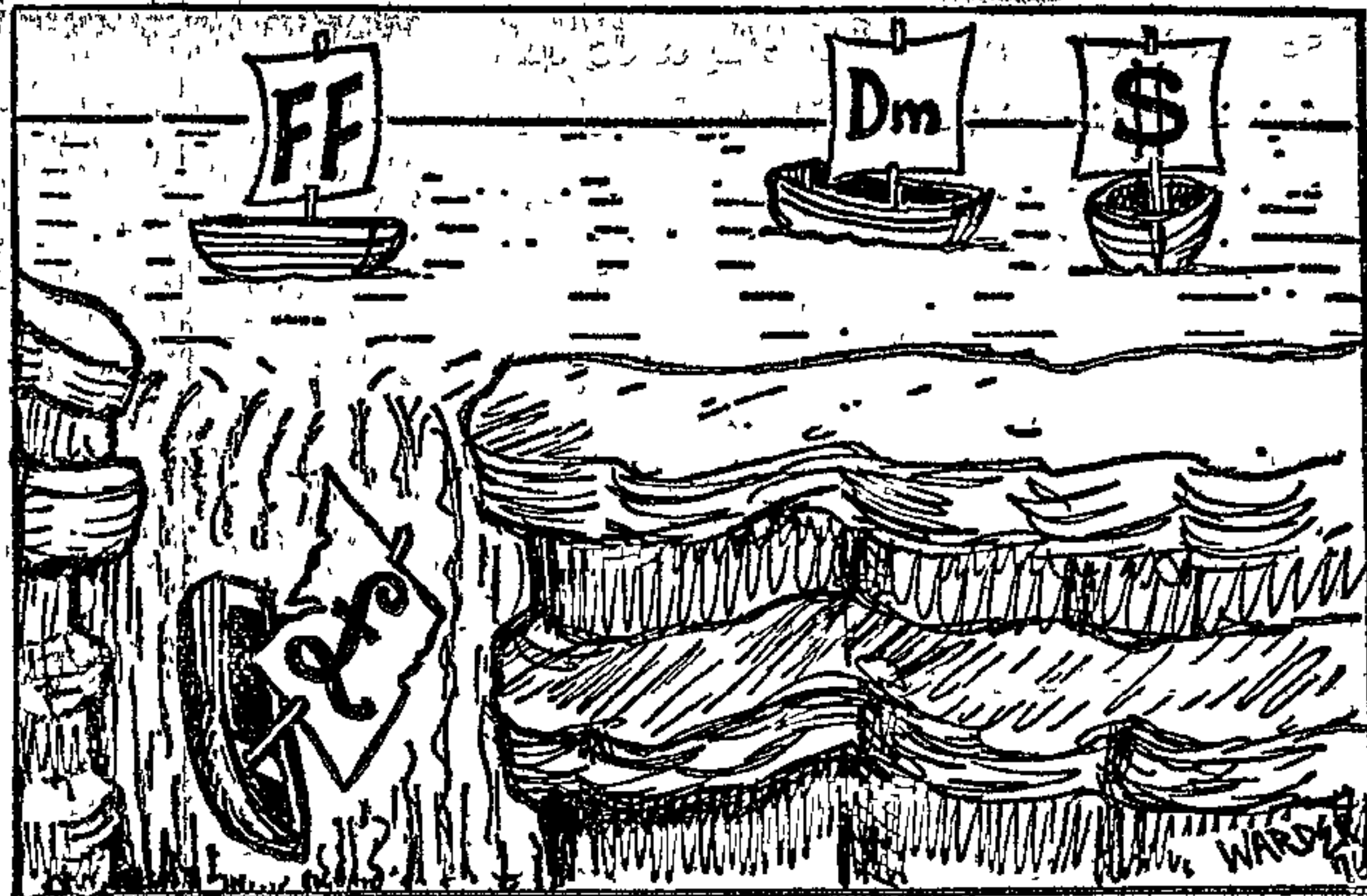
Exports and import substitutes are going to be highly profitable, even though the world economy is likely to grow only moderately in 1977 and may tail off into a recession in 1978.

Stagnation

At home the fall in the value of the pound since March is sufficient to raise import prices by 20 or 25 percent. This would

Britain's Chancellor, Denis Healey... he blames the latest dive of the pound on a newspaper report which said the price Britain would have to pay for borrowing from the IMF would be to allow the exchange rate to fall to 1.50 dollars.

CONT.



reduce real income by 5 percent, on first impact; and considerably more, as other prices move into line with the new world sterling level.

Thus, the picture for next year is one of external improvement — or at least, slower decline in sterling and the balance of payments, but stagnation and high unemployment at home.

As the Trade Secretary,

Mr. Edmund Dell, a man to watch, has just remarked: "Prospects will be increasingly based on exports."

Nevertheless Britain will be lucky if output grows by 2½ percent, compared with the previous official aim of 4½ percent; and unemployment may well deteriorate in the New Year.

If the Government or its successor could stick things out, there would be

a prospect of more stable growth with less inflation around the turn of the decade.

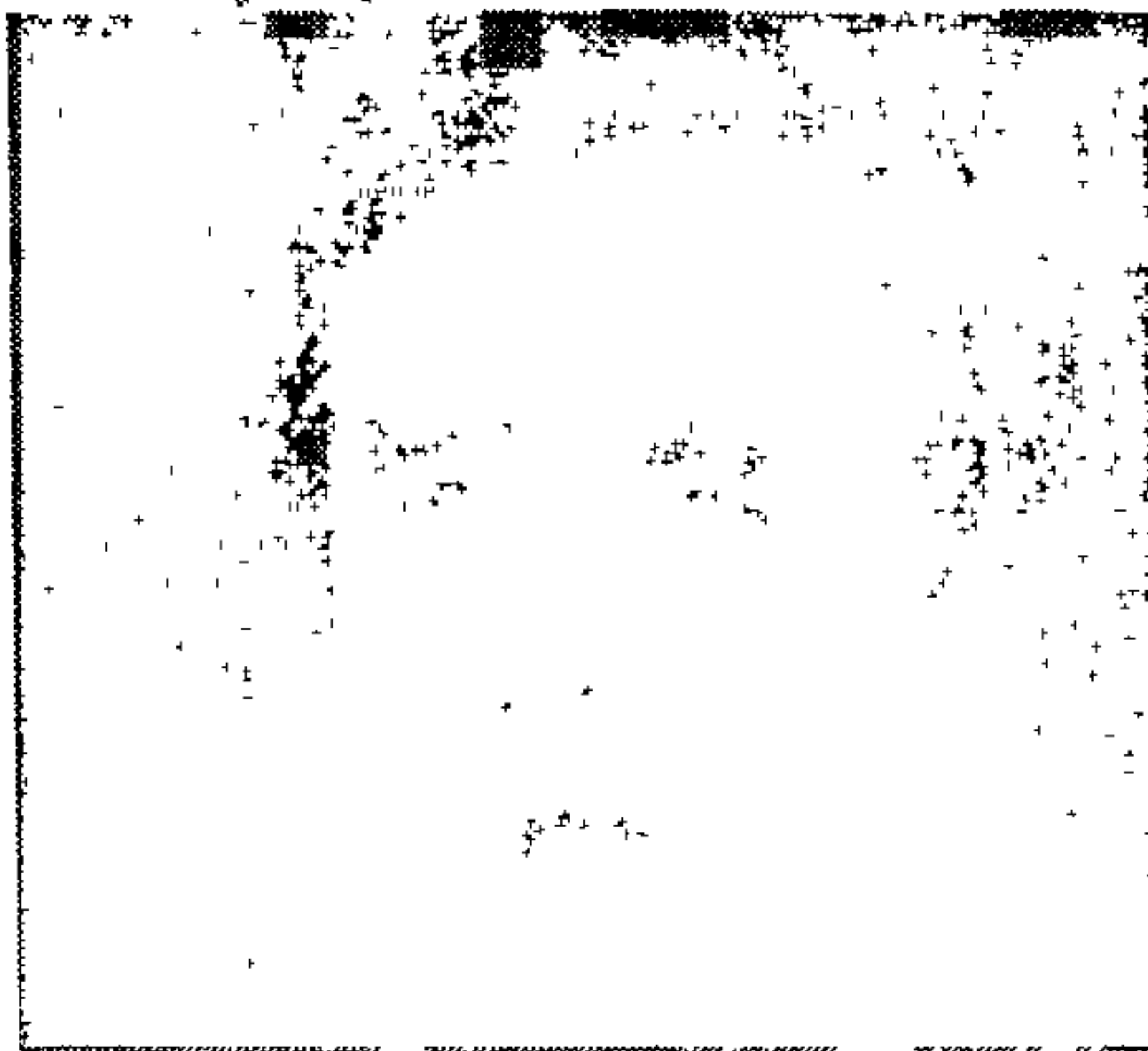
But the crucial difference between today and a similar situation under Roy Jenkins in 1968 is that both the rate of inflation and the rate of unemployment are twice as high.

Confidence in both political leaders and those who give them technical advice is very much lower. So is their own self-confidence.

In 1968 both capitalism and democratic socialism seemed to be workable systems, and the gap between them not overwhelming. Today the gap seems much larger while belief in either is very much less.

• A change in the political rules would not solve the economic conundrums common to the free world; but it might help to reduce Britain's problems to a level similar to that of other countries.

For in purely technical economic terms, I can see only temporary relief before the next gale. — The Financial Times News Service



I. M. F.

(156)

EMBARGO 21h00 12 NOVEMBER 1976.

PRESS STATEMENT

The Minister of Finance, Senator the Honourable Owen Horwood, announces that the International Monetary Fund has agreed to a drawing by South Africa of the equivalent of 160 million Special Drawing Rights (about R160,1 million) under the Fund's compensatory financing facility.

This facility is designed to assist those members of the Fund, especially primary producing countries, whose exports have been temporarily affected by a decline in price or demand in their overseas markets. In South Africa's case, the Fund noted that a substantial shortfall in the balance of payments arose in connection with the export of sugar, copper, wood pulp, wool, citrus, fruit and manufactures. Some forty member countries, including Australia and New Zealand, have previously made use of the facility.

The drawing will further strengthen South Africa's foreign reserves, which have already shown a substantial increase over the past few weeks.

ISSUED BY THE DEPARTMENT OF INFORMATION
AT THE REQUEST OF THE MINISTER OF FINANCE.
PRETORIA.

12 November 1976.

THE LANCET TUESDAY 18 JULY 1975

18 JULY 1975 PM
LONDON — Twenty thousand trade unionists and Labour Party workers yesterday marched on Parliament demanding that Britain's Labour Government should avoid any cuts in public spending in spite of its anxiety to strengthen the pound.

The march came while a team from the International Monetary Fund (IMF) was here investigating the economy in response to a request by Britain for a £3400 million loan to stabilise its currency.

The IMF is expected to insist that Britain reduces its balance of payments deficit and the Government may do this by cutting public spending and increasing indirect taxes.

But Public Services Union leader Mr. Alan Graham told the marchers gathered at Hyde Park: "We must tell the Government and tell the IMF that if cuts in public expenditure are the key to their policy to put Britain's economy right, then they are going to have to change that policy."

The demonstration was backed by 13 unions and the Labour Party's own National Executive Committee, its governing body outside Parliament.
— (Sapa Reuter) —

Markets divided on IMF auction

Argus 4/12/76

The Argus Bureau
LONDON. — Bullion
markets in London
and Zurich are divided
on the outcome of
Wednesday's Inter-
national Monetary
Fund gold auction.

Conditions could not be
more stable and are a
sharp contrast to those
prevailing immediately
before the previous four
auctions

Gold is trading almost
docilely in the middle of
the 128—134 dollars
range predicted by chart-

ists and bullion dealers
alike, with any up or down
movement being swiftly
corrected.

These facts are common
to both Zurich and Lon-
don. The difference in the
two markets is the out-
look for the auction.

● In Zurich, Paul Zubler,
head of the Union Bank of
Switzerland's bullion de-
partment, said: 'We don't
have any real feeling
about the auction.'

'Before the last two
auctions a lot of people
got the market wrong.
They went short on gold
and were caught.'

COVER IN

'They had to cover in
and pushed the price up.
Now we don't know what
the position is. I do not
expect buyers to make up
their minds as to what
price to bid until the day
before the auction or per-
haps even on Wednesday
morning itself,' he said.

● In London analysts are
more confident. One lead-
ing firm, which success-
fully predicted the results
of the third and fourth
auctions, said: 'We have
narrowed our short-term
trading range for gold to
128.50—131.50 dollars.'

'We expect the auction
to be a sell out at just
over 130 dollars as the
average striking price. But
how much it will be over-
subscribed is difficult to
tell'

'Before the fourth auc-
tion we had René Larre,
general manager of the
Bank for International
Settlements, publicly say-
ing there was a short posi-
tion of 50 tons in the
market.'

ARAB INTEREST

'This time we haven't
heard from him. But the
behaviour of the price —
particularly the buying
resistance at under 130
dollars, the Arab interest
and Far Eastern buying —
makes us believe the
auction will go well,' they
said.

The main question in the
market is whether, after
the auction, it will have to
absorb sales from countries
which are receiving resti-
tuted gold from the IMF
(6.25-million ounces in
all).

One school of thought is
that American Secretary
for the Treasury William
Simon's farewell policy
will be to try to keep gold
down at about current
levels.

This should not be too
difficult between the auc-
tion and the year end —
a traditionally quiet trad-
ing time.

But after that, parti-
cularly after the swearing
in of Jimmy Carter as
President on January 20,
analysts here see the gold
price moving up from the
low 130 — 135 dollars
range to 140 dollars an
ounce.

Gold sales likely to go fortnightly

JIM SRODES

WASHINGTON. — A sudden shift in policy by the United States now makes it all but certain that the International Monetary Fund will shift its gold sales to a fortnightly basis from the current six-week intervals. The action is likely to come within the next few days and take effect in mid-January, sources within the fund told Business Times.

"The Americans now say that we might as well go

ahead and have weekly sales. And that makes it certain that some speed-up will occur and although there is still some talk about monthly auctions, the heaviest support is for sales every 14 days," a Fund official stated.

Last week it was generally believed that the question of speeding up the IMF's auctions would be held over until Carter administration officials take over at the US Treasury next month. But spokesmen for the current Ford administration representatives at the Fund say the policy shift reflects a belief that more frequent

gold sales would reduce gold's reviving prominence in the world market place. More frequent auctions would also end accusations by Third World nations that the United States is trying to force down the world gold price at the expense of the

poorer member nations. The best bet at the moment, IMF sources confirm, is that the sales will be shifted to a fortnightly basis beginning the third week of January. This means the IMF will hold its already scheduled fifth sale next

US switch

paves the way

Wednesday of 780 000 ounces. Then there will be the customary six-week interval before the fund begins offering approximately 250 000 ounces of bullion every 14 days.

In related action, the Fund's directors already have postponed the return of 6.4-million ounces of IMF gold that was to accompany the upcoming Wednesday offering.

The sale is only part of an overall plan to dispose of 50-million ounces — roughly one-third — of the IMF's bullion holdings between now

and 1980. The sales will dispose of 25-million ounces with the proceeds going to help poor member nations.

The other 25-million ounces initially was to be handed back to contributing member nations in annual quarterly instalments, the first of which was set for next week.

Now restitution will be delayed until mid-January, by which time fund officials hope they will have ironed out their changes in the new procedures for disposing of the IMF's gold.

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KDWA 10/15/76

Horwood urges more frequent auctions

THE RESULTS of the IMF auction were "very satisfactory", said the Minister of Finance, Senator Horwood.

"I have seen these results described as a victory for South Africa. Whilst I think there is fair justification for saying that, I would rather call them a victory for gold which after all has withstood sustained onslaughts in fine style.

"The higher price will naturally be of great assistance to South Africa, and especially to our balance of payments."

"The decision to sell 525-000 oz of gold monthly in future, instead of 780 000 oz at intervals of six weeks, is in line with our belief that more frequent sales at shorter intervals will help to prevent speculation and will yield better results."

"I believe however, that still more frequent auctions of correspondingly smaller quantities — weekly or fortnightly — would be preferable, and I hope that the IMF will continue to give attention to this possibility."

— Sapa

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Welcome surprise with promise of more

EDM
10/12/76

Mining Editor
SOUTH African reaction to the International Monetary Fund was surprise tinged with glee.

The gold bugs were unanimous in their conviction that this price — the highest in the IMF's five auctions — confirmed gold's strength and future

A stockbroker who specialises in the gold market said the price confirmed overseas opinion that industrial demand was a strong factor in a market which was short of gold

He added, however, that a price of \$140 could be a resistance point for

fabricator demand and at such a price, buying from this source could dry up

Mr R. A. Plumbridge, president of the Chamber of Mines, said that the result confirmed that the overall picture for gold was brighter than it had been for some time

"It indicates clearly that the market is learning to live with the auctions and that demand is such that the gold being offered can be absorbed without difficulty in present conditions

"We welcome the decision to hold auctions more frequently as this will help to encourage market stability. We also welcome the decision to continue with the common bid price basis for the forthcoming auctions.

"In due course we hope that it will be possible to hold auctions on a weekly basis"

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the Fund a generation ago

While this is not much of a profit a recipient government will get of the transaction, the difficulty is the IMF's demand that the repurchase be made in currencies "the Fund can use for its operations" In order to get the gold, one must pay the Fund in dollars, D-marks or francs. Nor escudos, lira or pounds sterling or rand either

Thus, there could be a bad spin on the bullion price, for since these nations need hard currency and they need gold, they will immediately seek buyers for the gold they are selling. The IMF itself will be selling 100 oz in January, and with as much as 100 oz more possibly coming onto the market this month, the impact on the price could be harmful indeed, as predicted in December 17

WHO GETS WHAT

COUNTRY	OZS	OFFICIAL VALU
US	1 433 516	60 20
UK	599 081	25 10
Germany	342 332	14 30
France	320 936	13 40
Japan	256 749	10 70
Canada	235 353	9 80
Italy	213 958	8 90
India	201 958	8 40
SA	68 466	2 80
Zaire	24 177	1 00
Zambia	16 261	6 00
Kenya	10 270	4 00
Tanzania	8 986	3 00
Mauritius	4 707	1 00
Swaziland	1 713	
Botswana	1 070	
Lesotho	1 070	

GOLD

Price threat

On Monday, the International Monetary Fund begins what might be called "the other half" of its programme to dispose of 50m oz of its gold stock by 1980

The Fund will already have conducted six of its 780 000 oz gold auctions by the end of the month. And, by that time, the IMF will have returned 6,25m oz of bullion to its member nations — a restitution that means a windfall profit of roughly R5m for SA which would be indeed welcome if it weren't in the form of 68 466 oz of yellow metal

The Fund is not exactly giving back the gold. There is a gilded Catch-22 about the programme that is causing many of the beneficiary nations — the 60 poorest to name one group — a bit of trouble. The catch is the IMF's insistence that the gold to be returned must be repurchased by the receiving nation at the SDR \$35/oz (\$42/oz) official price at which the bullion was originally put into

Worse, of the 6,25m oz of gold from the IMF, a full 1m oz goes to the US. Waiting for incoming Treasury Secretary W M Blum's report from the Treasury's staff that recommends the sale of 1,4m oz as soon as the IMF is over. The \$133m estimated profit might get from the sale would come offset to the continually rising US industrial imports of bullion are back to the 4,5m oz levels of the 1970s

Moreover, the Treasury is about the eager response which many of Americans are showing. The Chamber of Mines' marketing of the largest US cities to sell gold coins at a premium \$140/oz

Prior to the drive, national gold coins only averaged 10 000 oz per month. Since the Treasury is facing a year 1m Krugerrand imports and that the effort will sell another 1m in 1977

(50%)

Hansard vol 34 25/1/77

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What advice would you give?

Draw up a table showing the opportunity costs involved in each.

alternatives is most profitable.

The Managing Director asks you to consider which of the two

Both jobs will take exactly one year.

International Monetary Fund

*30 Mr T ARONSON asked the Minister of Finance

(1) Whether representations have been made to the International Monetary

Fund about the sale of its gold holdings, if so, what was the nature of the representations,

(2) whether the Government has bought or intends to buy any of the gold being sold by the International Monetary Fund

The MINISTER OF FINANCE

(1) The arrangements in terms of which gold is sold by the International Monetary Fund for the benefit of developing countries have been implemented after lengthy deliberations concerning the role of gold. In the course of these deliberations South Africa duly expressed its views. Since the commencement of the auctions views have also been exchanged with the Fund in regard to the marketing procedures followed.

(2) The South African Government has not purchased gold from the IMF under the aforementioned scheme. Decisions regarding future purchases will be taken in the light of prevailing circumstances. Another scheme which has been adopted by the Fund however provides for the restitution of one-sixth of the Fund's gold (25 million ounces) to member countries over a number of years at a price of SDR35 per ounce. The first restitution operation has taken place this month and South Africa has accepted its proportionate share of approximately 68 500 ounces through the medium of the South African Reserve Bank. It is the intention to follow a similar line of action in regard to future restitution operations.

based in Cape Town.

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each earning R2 000,

bought for R5 000 each

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be necessary to buy
contract.

3000 units of Type

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Type B has no alte

for 50c each.

Type A would not

500 units

1 000 units

Parow job:

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Transport The Comp

will be adequate f

The Company's exis

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Staff The Bellvil

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In August 1974 the

Plausible Ventures

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Hansard I col 29 28/1/77

(156)

International Monetary Fund

*20 Mr S A VAN DEN HEEVER asked the Minister of Finance:

- (1) Whether negotiations are taking place for South African representation at meetings of the International Monetary Fund, if so
- (2) whether he will make a statement on the matter

†The MINISTER OF FINANCE:

As a member of the International Monetary Fund South Africa is entitled to all the rights of a member country including attendance at the Annual Meetings of the Fund. South Africa is not at present represented in the Executive Board of the Fund, but the South African Permanent Representative at the Fund looks after South Africa's interests in the Fund. No negotiations are taking place at present in connection with possible representation in the Executive Board.

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International Monetary Fund

126 Mr H H SCHWARZ asked the Minister of Finance

Whether South Africa drew or borrowed any amounts from (a) the International Monetary Fund and (b) the World Bank during 1976, if so, (i) what amounts and (ii) on what dates

The MINISTER OF FINANCE

(a) Yes

(i)	(ii)
SDR 80 000 000	28 January 1976
SDR 75 000 000	13 August 1976
SDR 160 000 000	16 November 1976

(b) No

(i) and (ii) fall away

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due course

5 August 19

Sun. Trib. finance 14/8/77

Authorities saved the day for banks

By ESMOND FRANK

TIMELY steps by the monetary authorities helped to prevent a chain reaction which may have left more banks than Rondalia and Randbank in difficulties, says the chairman of Interbank Discount House Limited, Carel van Aswegen.

Interbank had an involvement with both banks. Although it is expected that depositors will be fully reimbursed as regards capital, it is possible that part of the interest owing may not be repaid.

Provisions have been made for possible losses in this regard, which meant that Interbank's profits fell by 17,5 percent compared with the previous year's figure. The bank reported a net profit after tax and transfers to internal reserves of R505 090, equal to 42,1 cents a share, compared with R612 106 (51,5 cents a share) the previous year.

The board recommended a final dividend of 12 cents a share which, if approved, would bring the total for the year to an unchanged 22 cents a share. This amount was covered 1,9 times.

Assets have increased from R147 million at the end of the previous year to R159 million.

"As shareholders can gather, considering the relatively limited fall in the profit reflected by the accounts, the company would have enjoyed a much more profitable year had it not been for the events mentioned," says Van Aswegen.

The past financial year was one of the most difficult periods in the history of South African banking. The poor business climate and insolvencies, the high cost of money and the obligation on banks to maintain a high liquid asset ratio, have combined to place two banks, Rondalia Bank and Randbank, under curatorship.

This created a confidence shock among depositors and very nearly lead to a crisis of confidence.

"A chain reaction could well have resulted, landing more than the two institutions mentioned into difficulties," Van Aswegen maintains.

The creation of a special fund of R55 million at the NFC, available for recycling to banks, with other measures, had the required psychological effect. At this stage it appears as if a crisis has been averted, says Van Aswegen.

He feels that the lesson learnt by the banks over that difficult period may well be of long-term benefit to all. There is little doubt that banking institutions are now putting greater store on liquidity and are taking greater care with regard to exposure to individual banking institutions via holdings of negotiable certificates of deposit issued by any such institution.

on prepared by

TOTAL EX- CH- ANGE TION	POINTS
7	99
9	106
5	87
5	163
4	88
0	143

members in

A.H.R.E. PAAP
culty of Arts

Groenewald has a tough job ahead



Joep de Loor . . . two hectic years.

WASHINGTON. — The job of being SA's Ambassador to the World Bank and International Monetary Fund can be compared to a man rowing a tiny rowboat straight into a tidal wave. As the new ambassador, Dr Pierre Groenewald will certainly have his hands full bailing out his tiny craft and working the oars, but the impact of bank and fund policies on South Africa are largely out of his control however adroit a navigator he is. This is not to say that Dr Groenewald is not a worthy successor to Joep de Loor who returns to Pretoria and the Finance Ministry next month after two hectic years.

Groenewald will have plenty of contributions to make and is in a very good position to succeed, perhaps in a stronger position than De Loor was when he arrived in 1975.

IMF board

There is the question of South Africa's representation on the IMF's board of executive directors which will be decided at the 1978 annual meeting.

With one full per cent of the total vote at the fund, South Africa is now a very attractive partner for one of the European nations facing a loss of a seat on the board to the powerful Arab bloc. The Dutch are nervous, so are the Belgians and Austrians. The most vulnerable are the Australians who piously dropped SA from the board room two years ago.

Groenewald has already indicated that South Africa might seek an alliance where it could hold the position of senior partner.

And he will also have his hands full as South Africa's emissary to Wall Street. South Africa has been virtually frozen out of bank loans in New York. But Finance Minister Owen Horwood will be fishing those waters deeply in the next fortnight and with the improved numbers of South Africa's austerity period as ammunition, he may be able to win some commitments for new capital.

It will be Groenewald's job over the months that follow to see that those com-

By JIM SRODES

mitments do not get lost or forgotten and that the terms SA pays for its financing are the best.

But, having said all that, the single most important impact the IMF can have on South Africa in the next year is in the area of gold, and there is little anyone can do to alter its impact one way or another.

Early in 1978 the IMF articles of agreement will be amended to remove existing practical restrictions to the use of gold as a supplementary monetary asset.

What happens then depends on whether the surplus currency countries — Germany, Japan and the oil exporters — see an advantage in increasing the proportion of gold in their total reserves. The per cent distribution of gold and other reserves in billions of dollars is shown in the table below.

From these figures, an increase in gold holdings by Japan as well as OPEC appears to be a strong possibility, particularly if gold continues to show price strength. And since there is no large privately held gold source, the transfers would have to be from gold surplus to currency surplus countries either directly or through concurrent transactions in the market.

Trigger

But any move by a currency surplus country to acquire gold in the market could certainly trigger a surge in the price. An official transfer would have a lesser effect.

Until now, the surplus

countries have been willing to build reserves entirely in foreign exchange. But as these reserves continue to grow, large currency holders will begin to hedge by acquiring some gold.

American thought is that this trend will become evident fairly soon, possibly this year, certainly by 1978 — evident first in the oil producing countries, then in Japan and possibly West Germany.

The key uncertainty is whether the US will react either to discourage gold acquisition or counter it by large sales. The thinking is they will do neither.

Support level

First, the US Treasury does not believe any major central banks will acquire gold unless there is agreement on a price support level. But soundings indicate monetary authorities are more pragmatic, and will be influenced by the future performance of gold and currencies.

The real issue is whether the US will try to hold a ceiling on the gold price.

As the largest official holder of gold, the US has no logical interest in challenging the market. The probable US gold policy will be one of complete neutrality with regard to market forces and gold dealings by foreign central banks.

Dr Groenewald of course cannot count on that. This means he will have his hands full guiding South Africa's fortunes in the IMF waters — and occasionally casting his eye to the horizon to see what the tidal wave is up to.

GOLD DISTRIBUTION

	Gold (Market price)	Other reserve -assets	total	Gold as % of total
United States	40	8	48	83
W Germany . . .	18	30	48	38
France	15	6	21	71
Italy	12	5	17	71
Switzerland	12	6	18	67
Netherlands . . .	8	5	13	62
Belgium	6	4	10	60
Top gold holders	111	64	175	63
Japan	3	17	20	15
OPEC	6	66	72	8

156
9/10/77

Please Sir, can we

have some more?

FOR THE second time in not very many months, Finance Minister Owen Horwood, now that the annual International Monetary Fund annual meeting is over, has once again been sitting in the waiting rooms of the country's international creditors.

There is probably no doubt that, if asked, our Department of Finance would deny that he and his official entourage are there to ask for more credit, after all the Treasury's immediate foreign funding needs have been met.

I also have no doubt that the foreign bankers he is visiting will privately express the contrary view.

Be that as it may, this time Senator Horwood is probably finding that what he has to say about South Africa will be received with deeper interest and less scepticism than before. This is certainly my impression after talking to the international divisions in London, still the dominant international-capital

market, of some of the world's leading banks.

The plain fact is that the performance of most Western economies has in the past year fallen so far short of expectations that foreign bankers are now actively seeking secure and worthwhile borrowers wherever they can find them.

South Africa is once again beginning to attract their interest. But this is not because their fears for the country's political future have been assuaged.

Rather, it is because of growing concern over the viability of other developing nations, particularly in Africa, which have borrowed heavily and now appear to be approaching the

category of doubtful debtors, both for unstable political and economic reasons.

In a relatively short time, South Africa has achieved a turnaround on its trade balance that is impressive, suggesting that it is capable of considerable financial discipline. Because of the deepening world recession that appears to be ahead, this is of the utmost importance to international lenders.

The South African Government has never failed to meet its debts in good time and the country has no history of the venality that has become characteristic of the emergent North.

But perhaps more important, they have not yet completely despaired of the ability of the Vorster Government to seek an accord with black leaders that will find support among the less radical Western nations. That they still hold these views despite the

widespread publicity given to the circumstances of the death of Steve Biko and its aftermath of township violence, is more a reflection of political events elsewhere in Africa than a naive faith in South Africa.

This does not mean that South Africa is on the brink of seeing a turn in the tide of foreign capital flows. Rather, it suggests that international bankers are poised and watching very closely.

In particular, large American and British banks that have not hitherto been very active here, and which have watched with some envy their national and international (particularly West German) competitors' activities, are preparing to move in should the circumstances arise.

Without exception they are prepared to finance trade with South Africa — that is lend for short periods on self-liquidating transactions

As yet most are reluctant to lend for capital project purposes, although three-year loans to mining companies are under consideration.

Some have also provided short-term facilities to local banks and have no plans to curtail this type of lending, which is to some extent compensating for the tailing-off of politically sensitive direct loans to Government.

Export credits for capital equipment purchased from European countries remain in abundant supply.

These, however, are not available from the United States mainly because they are provided through the Export-Import Bank (Ex-Im Bank) which, while not directly answerable to Congress, can be indirectly influenced by politicians through its budget allocation.

In the past, this indirect influence has been sufficiently robust to dis-

JUST back from Europe, Business Times' deputy editor, NIGEL BRUCE, reports on the changing attitudes of our tough-minded international creditors.

courage export credits to countries the domestic policies of which have not found favour among US politicians.

Another important inhibition on US bank lending to South Africa is the fear that the Federal Reserve might re-impose constraints on banks' foreign lending if there is a noticeable upsurge in US loans to developing African countries.

The Fed's chief, Dr Arthur Burns, has for some time looked with disapproval at the proportionately large amount of loans from some prominent American banks to African countries whose political instability and faltering economies have subsequently cast doubt on their ability to repay.

For this reason, clarification of the Carter Administration's policy towards South Africa is of considerable importance. If it should indicate some sort of accommodation for the

White South, the US banks believe the Fed's attitude to increased US lending to South Africa is less likely to cause it to introduce foreign lending constraints on them.

Meanwhile, signs of political change (particularly the granting of greater economic freedom to blacks) are being searched for, the progress of the South African economy is under close scrutiny abroad and bankers are watching with intense interest events within the local banking community.

In this latter regard, the future of Trust Bank, for instance, is being very carefully weighed and the machinations of Triomf's phosphoric acid operations and Nedbank's involvement with it is a topic of some speculation.

If it were not for a softening in attitude to South Africa, to international financiers this type of interest would serve no purpose.

1957-10-21

Matter urgent, says Horwood Monetary problems need solution

PRETORIA — The Minister of Finance, Senator Owen Horwood, said here yesterday that South Africa needed solutions to certain monetary problems — “and we need them urgently.”

Opening the first meeting of the Commission of Inquiry into the monetary system and monetary policy in South Africa, under the chairmanship of Dr. Gerhard de Kock, the Minister said the many basic changes in recent years, in both the South African and the international monetary systems, made the commission's task essential.

The commission's work could be divided into three broad areas, he said.

In the first, the money market and interest rates, he said there was clearly scope for further improvement in the markets for Treasury bills and other gilt-edged or semi-gilt-edged securities.

Trade bills

It was also common cause, he said, that there were problems in the money market on the role of trade bills, promissory notes and bankers' acceptances, the National Finance Corporation, the Land Bank, and the smaller banks.

On the second area, exchange rate policies, and practices, Sen Horwood said it might prove desirable at a later stage to make further adjustments to changes in recent years in the international monetary system, — changes which were to be formalised in a new International Monetary Fund agreement, presumably early next year.

In the third area of the commission's task, monetary policy in the broad sense, the first and second areas would have to be integrated and account taken of the various inter-relationships, such as those between the money supply, interest rates and exchange rates. — (Sapa.)

IMF fund for the poor \$902m

EDM 4/11/77

(156)

WASHINGTON. — The International Monetary Fund raised about \$63-million to finance a trust fund for the world's neediest nations at its gold auction.

Since the auctions started in June last year, the IMF has raised \$902-million for the trust fund, which was established to make loans on easy terms to about 60 of the world's poorest countries.

The IMF plans to sell 25-million oz of gold over four years.

It sold 524 800 oz on Wednesday at an average price of \$161.86 an oz.

It accepted bids ranging between \$161.76 and \$163.27, with each successful bidder paying the price he offered.

The average auction price was expected and was close to the London afternoon fixing of \$161.75.

Bids totalling 1 356 400 oz were received at the IMF's headquarters for the gold on offer.

If the IMF keeps to its schedule of holding auctions on the first Wednesday of each month, the next sale will be on December 7.

The IMF said it could not

award all the 525 000 oz of gold on sale because to do so would have meant accepting another minimum bid of 1 200 oz.

Gold dealers in Hong Kong said the IMF price of \$161.86 confirmed gold could reach \$170 by the year-end.

The Hong Kong price rose to \$163 to \$160.40 from \$162.50 at the New York close on Wednesday.

The market was active, reflecting the view that the price has consolidated in the lower \$160 range and is sound enough to rise further.

Market sentiment continues to be bullish because of the weakness of the dollar and good physical and speculative demand.

Continued industrial demand from Europe around \$160 is encouraging as demand usually falls at higher price levels.

Some oil-producing countries appear to have been investing part of their surplus funds in gold, says the general manager of the Union Bank of Switzerland, Mr Niklaus Senn.

He told a Press conference in Zurich the amounts were small. "Otherwise the gold price would be very different," he said — Sapa-Reuter.

STAR 29/12/77

US helps SA to borrow R400-m

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WASHINGTON — Despite its official criticism of South Africa's racial policies, the United States has helped South Africa obtain R400-million from the International Monetary fund to combat its economic problems

Rooted in that action is a case study of the contradictory choices confronting US interests and policy objectives on a global basis

Specifically, US support of South Africa in the IMF raises questions whether there is a built-in clash between the political and economic goals of Washington's foreign policy.

On one side, there is the concern of the United States, which played the leading role in creating international lending agencies like the IMF, that the integrity and impartiality of these institutions can be protected so they can perform the jobs for which they were designed

In the case of the IMF, that job is to help 130 member countries overcome threats to their economies caused by adverse trade balances — imports outstripping exports — that seriously deplete gold and currency reserves

The success of IMF's bailout operations, US officials note, is important

to every country engaged in international trade

If a country, particularly a large country like South Africa, runs into balance-of-payments problems that make it unable to sell products and pay its foreign debts, the resulting chain reactions could disrupt international trade and monetary systems

EXAMPLE

For that reason officials say, the United States must treat loans made by the IMF differently from US aid granted on a direct, government-to-government basis

Washington, they argue, must set an example for other members by ensuring that US votes in the IMF are strictly in accordance with the agency's rules and economic objectives rather than allowing them to be influenced by political considerations

BACKDOOR

However, the argument increasingly has been challenged by human rights activists, leaders of the American black community and other opponents of South Africa's white supremacy policies.

They charge that international agencies like the IMF have become convenient backdoor devices for quietly channeling aid to countries like South Africa, whose domestic policies are bitterly opposed by many Americans. — Washington Post News Service.

- 53. Literature 1910 - 14 D
- 54. Lit. since Daumier S
- 55. The case of Romain Rolland D h
- 56. Photogr. S.
- 57. Theatre as a mirror of social co
- 58. Photo. II S
- 59. Media and culture I D
- 60. Bauhaus I
- 61. Media and culture II D
- 62. Bauhaus II S
- 63. The Vienna circle D
- 64. Surrealist I S

NM

11/3/28

Bull

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ZAMBIA ON 'THE BRINK'

LUSAKA — Zambia was economically on the brink of collapse unless funds were found within a matter of weeks, the Finance Minister, Mr. John Mwanakatwe, told the National Assembly here.

"If this source of income to service the nation is not found quickly, the nation will not be able to maintain the momentum of development, even to pay for petrol," he said.

Zambia had been negotiating with the International Monetary Fund (IMF) for about R400 million.

To show the seriousness of the economic difficulties Zambia faced, Mr. Mwanakatwe said the country faced a colossal debt to outside companies for goods and services already received.

Zambia's public debt stood at R1 293,5 million, external borrowing accounted for R551,5 million while internal borrowing stood at R742 million.

The IMF delegation which came to Zambia to discuss the raising of a loan left quietly on Tuesday without indicating the outcome of the talks. — (Sapa.)

Handwritten 9 8 April 1978.

Question 454 Col 532

(156)

EDA: Will the people out there be able to understand this table?

Not in the villages, no. We use this here at the hatchery and at Tshakolo. This is for water over 18°C because we believe when the water temperature is higher they eat more. When the water is below 18°C we use another table. We also have another table for

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Loans from International Monetary Fund/World Bank

454 Dr Z. J. DE BEER asked the Minister of Finance

Whether South Africa borrowed any amounts from (a) the International Monetary Fund and (b) the World Bank during 1977, if so, (i) what amounts and (ii) on what dates

The MINISTER OF FINANCE

(a) Yes

(i)	(ii)
SDR 39 000 000	28 January 1977
SDR 38 000 000	6 June 1977

(b) No

(i) and (ii) fall away

...ing to Lesotho con-
optimum, so we are
tion between the yield
There are about 30
ze of the fish, size
lishment, mortality,

rst year we supply
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Economics

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Transport cost is quite high because of the size of the farming units and because of the distances involved. But if you compare the fish farming profitability to other agricultural activities in Lesotho, like crops, maize, wheat, it's much higher. Also the income per employee is higher. The profitability of the intensive farmer is about double. Last year the food conversion rate was 3,1. The previous year it was 3,0. Since I came here we've started better methods of feeding. The food conversion rate of the intensive farming is higher: 4,0. The previous year it was 3,2. We're also trying to reduce the amount of pellets as opposed to wheat and I feel that up to now it's working.

If we consider everything, including the capital investment, the picture will be different. These fish ponds can't compare with Israel because here the cost of investment per hectare is very high. The ratio between the bank size and the water area is very high because the fish-ponds are small. For example, if instead of making two ponds of 2½ hectares each you make one pond of 5 hectares you'll need less ground for the walls. In addition, if you include the cost of laying on water supply and constructing outlets you can see that the more ponds you have the higher your capital investment is but it won't help the production. But still if you compare it to all the other activities in Lesotho including the soil conservation work, I don't think it's more expensive. So it depends

Inflation N.M. 14478 (156) **eases**

says IMF

WASHINGTON — The International Monetary Fund (IMF) said yesterday that inflationary pressures eased slightly in recent weeks in industrial countries.

Wholesale prices of internationally traded goods and consumer prices in industrial countries lost some of their upward thrust during February and January, according to the April edition of International Financial Statistics, a monthly publication of the Fund.

The publication said the latest figures also reveal a sharp decrease in the U.S. dollar value of industrial countries' exports and imports during January, including pronounced declines in the commerce of such major trading nations as Germany, Japan and the U.S. It added that this probably reflects seasonal factors.

Another statistical publication of the Fund, Direction of Trade, gives a comprehensive account of the country distribution of world trade in 1977 for nearly all industrial countries.

In its February and March editions it shows, among other things, a notable improvement in the trade balance (including the cost of freight and insurance payments on imports) of Germany and the U.K. within 12 oil-exporting countries last year as well as a deterioration in the U.S. balance with the same countries. — (Sapa.)

IMF chief plans to take heat off dollar

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WASHINGTON. — Johannes Witteveen, the outgoing director of the International Monetary Fund, wants to do to the dollar what he has been trying to do to gold — reduce its importance in the world monetary system.

In a new scheme to ease some of the pressure on the US dollar, Mr Witteveen has suggested creating a large new amount of special

drawing rights (SDRs) that could be used to expand the world liquidity and replace the hundreds-of millions of dollars in the world exchange markets

An SDR is the international money asset created by the IMF and distributed proportionately among its 130 member nations. The new SDRs would not add new liquidity right away, because the first task would be to reduce the amount of dollars in circulation. The idea is that by reduc-

ing the burden imposed on the dollar by its role as the central currency, used by world traders, the dollar will strengthen and the current rush of speculation against it will cease. Thus, in turn, will stabilise other currency exchange rates — the rand among them — and help the Americans in their battle with inflation.

Mr Witteveen also has another motive. The United States is on the verge of using its vast 277-million ounce gold hoard to help

By JIM SRODES

prop up the dollar. Other nations — among them Austria and Portugal — have turned to gold as a way of expanding their liquidity and keeping their economies going. This is just what the IMF does NOT want to happen, for it would rethroned gold as a keystone of the world money system. Mr Witteveen also wants to promote the use of SDRs, which the IMF has tried to use to replace gold, but

with indifferent success. But because there is not so much a shortage of liquidity in the world, but rather a shortage of "hard" or usable currencies to pay oil import and other trade bills, the IMF cannot legally flood the world with SDRs and hope the dollar role dwindles.

Instead the plan calls for nations to trade dollars in for SDRs that would be put into a "sterilised" account that could not be touched. Depositing nations could

draw interest from the SDRs, presumably in the form of US Treasury securities

No decision has been taken on how many SDRs Mr Witteveen wants to create, but he says "the amount would not be token." It would have to be in the billions of dollars, because current dollar-proping operations between the US and the so-called Group of 10 countries involves \$20 000-million and have not been successful.

Mr Witteveen is arguing that the new SDRs would ease the pressure on the dollar among nations who believe they are holding uncomfortably large amounts. Many details have to be ironed out and much scepticism among Carter administration officials must be overcome.

But the new Witteveen plan will occupy a central spot in talks the IMF has in Mexico this month and at the July economic summit meeting in Bonn.

Harvard. 11 21 April 1978
Question 1 cols 670

FRIDAY, 21 APRIL 1978

†Indicates translated version.

For oral reply

South African exchange control regulations

*1 Mr H H SCHWARZ asked the Minister of Finance.

- (1) Whether the South African exchange control regulations have been submitted to the International Monetary Fund, if so, what has been the response thereto,
- (2) whether the International Monetary Fund has given any indication that the South African exchange control regulations are consistent with Article 6 of the Articles of the Fund.

The MINISTER OF FINANCE

- (1) Yes The International Monetary Fund did not raise any objection to the South African exchange control regulations
- (2) The exchange control regulations and any amendments thereof are discussed with the International Monetary Fund on a continuous basis. No objection to these regulations has been raised with regard to the provisions of Article VI.

Special
Finance
Correspondent

THIS WEEK has seen the London gold price tumble below 170 dollars an ounce for the first time since early January. The resulting reduction in earnings both for the gold mines and the country will be a disappointment. But the setback is neither unexpected nor is it likely to be long-lasting.

The major factor giving rise to the decline in the price of precious metal is the decision by the US to sell off large quantities of its official gold stocks. Sales will be at the rate of 300 000 ounces a month starting on May 23.

Rumours of the move began to depress the gold price earlier in the week and on Thursday the announcement immediately lopped a further three dollars off the free market price.

However, the official announcement will help to clear the air and the market should soon accept that the effect of the auctions will be minor. The volume is smaller than the monthly sale of 525 000 ounces by the International Monetary Fund and amounts to only some 20 percent of South African monthly output of the metal.

The gold price trend must be viewed in the context of a number of other factors which have also been influencing the market.

The rising gold price of the past four months has in large measure been a reflection of the

weakness of the US dollar. Since the gold price is traditionally quoted in dollars, the value of gold expressed in terms of the US currency has appreciated as the dollar has depreciated.

The dollar has now stabilised, at least for the time being, and has even regained some of its lost purchasing power in the foreign exchange markets. This is a trend which will be assisted by the US sale of gold. As a consequence the gold price as expressed in dollars, has had to be marked down.

There is also a seasonal factor operating. The gold market is now approaching the mid-year vacation period of the West European jewellery industry.

Manufacturers are cutting down on their stocks of precious metals as they prepare for the summer close-down. This is a phenomenon which influences the market for gold every year.

The major effect is always felt in July when the jewellers are actually absent from the market and no purchases are made at all. But the market begins to anticipate the fall-off in jewellers demand much earlier. Barring a major crisis, a further sustained increase in the gold price cannot be expected before August or Sep-

tember, when the jewellers return.

It has been suggested that the large price rises of the first quarter of this year had begun to discourage industrial demand and that this fall-off in demand would trigger a new, weaker trend in the gold price. The latest news on the US gold sales would be more serious for gold producers if this were true.

But, in fact, there is little evidence that industrial users have been resisting the price rises. Nor was it a likely development in the light of historical experience. It must be remembered that industrial demand persisted throughout 1974 when the price of the metal was substantially higher, both in nominal and real terms, than it is now. To the extent that there has been a fall-off in industrial demand, this must be regarded as seasonal, and not an indication of a new, underlying trend.

A final factor weighing against the significance of the US gold sales is the consideration that the effect of the sales is likely to be off-set by purchases by other central banks.

This is now possible in terms of the newly amended articles of the IMF — the same change in the rules that makes the US gold sales possible.

There is some evidence that such moves are planned. For instance the Japanese central bank has announced that it is examining a proposal to buy gold for an industrial stockpile.

The motive is to help reduce the massive Japanese balance of payments surplus by purchasing free market gold out of accumulated foreign exchange reserves.

With Japanese industrial demand for gold amounting to between four and five tons every year (about 150 000 ounces) a decision to accumulate, say, a five-fold cover of annual requirements could establish a fairly sizeable source of demand for the metal. And the Bank of Japan is only one of dozens of potential central bank purchasers of gold.

The prospects for gold are therefore not greatly diminished by the advent of US gold sales. There will be a temporary adverse reaction in the markets, which will be aggravated by the normal seasonal decline in the price during the northern summer months.

But the price can be expected to recover strongly in August and September and is likely to maintain an upward trend towards the end of the year.

Sum Trib 23/4/78
**Gold rush ends
— for a while** (SL)

By ROB ABRAHAMSEN, executive director of Nedbank.

age trading rate of the rand, using import and export weightings, respectively, since the final quarter of 1975.

self. It encourages even the wider world markets and changing inter-relationships among our trading partners rather than between them and South Africa.

The result, though, did affect South Africa compared with the base weightings of 1972, a divergence of

In the main this can be attributed to the econo-

TABLE A

	Inflation % pa	Balance of pay- ments current accounts surplus (+) deficit (-)
Major trading partner		
United States	6.0	\$39-billion
West Germany	4.0	+ \$2.9-billion
United Kingdom	8.5	+ \$3.7-billion
France	8.75	\$13.3-billion
Japan	6.75	+ \$22.9-million
South Africa	9.00	+ \$1 000-million

The securities rand rate, therefore, reflects only expected returns on certain types of financial assets. It does not measure the

might be regarded as the market consensus on what the official exchange rate would be if it were freely determined

More accurately, though, the securities rand rate measures nothing more than the relative investment appeal of South African listed securities to non-res-

The securities rand rate, therefore, reflects only expected returns on certain types of financial assets. It does not measure the

By **ROB ABRAHAMSEN**, executive director of Nedbank.

relative purchasing power of the rand and other currency units, or what the official rand rate (or freely transferable rand rate) would be, if it were free. This is well illustrated by

the United Kingdom's export performance in the second half of 1977

But a massive foreign exchange occurrence. These were not monetary movements which led to steady hardening of sterling and relieved the

This experience shows how largely markets can be influenced by "sentiment." Understandably, the market was strongly

That, though, touches only the surface of the question. The relative rates of exchange may not have been "right" before 1978 began, and further, domestic inflation rates do not translate automatically into the inflation rates of internationally traded goods.

The weakest point in the arguments of this type is that they ignore flows on the capital account of payments. I think that it is expected which matter most of

Therefore, the question of flows

work themselves out." It is not as simple as that. These are internal and external implications of exchange rates — these differences from country to country depending upon its degree of "openness" to the world economy, the nature of its "openness", and its type of monetary system and internal pricing mechanism. The South African case, like all others, is both one

The economy is dominated by the private sector, and sheltered, its monetarist system is market-orientated but very strictly controlled and largely influenced by the central bank, and internal prices are market-determined and cost administered.

These facts create practical difficulties, even for seemingly relatively simple task of fostering the development of a free foreign exchange market in South Africa.

Can the exchange market be free while residents ex-residents are subject to different rules from those for non-residents? It seems doubtful. In the if the exchange rate "right" the problem will fall away.

But maintenance of exchange rates may be appropriate for different participants. Yet the IMF rightly, frowns upon multiple rate systems. They, really, are only one away from the much simpler direct controls are expected to replace

The system of floating exchange rates has not produced the benefits had been hoped of it not confer an additional degree of freedom in domestic economic policy.

For some countries in South Africa, it did not — or achieve — transactions in our exchan-

which would automatically have kept the balance of payments in equilibrium. A small, by world standards, open economy like ours, could not seek to impose a monetary discipline on itself which would help it to maintain its foreign reserves and domestic economic activity at a desired level without disconnecting itself from the outside world.

The dilemma can be summarised briefly. The Reserve Bank can maintain autonomy over monetary policy only if it accepts the limited variations in the spot exchange rate of the

If it does so, however, economic authorities are likely to lose their freedom of choice regarding policy generally. It would seem that we can try to control our inflation rate or our real growth rate — but not both.

It is not surprising that no country has gone the whole way in accepting a free market float of its currency. Heavy official intervention has been brought in from time to time on all the currency markets.

The exchange rate is important a price for determination to be left the simple mechanism the markets. Experience has shown that they

But several useful suggestions can be taken in South Africa to improve the efficiency of our market mechanism and depth with vigorous and depth with

...s, like the rest of the world, are facing a variety of economic problems. The Commission of the European Communities, headed by Dr. G. P. Kook, is examining the possibilities of implementing these improvements — which include, for example, a sensitive forward mar-

But what may be economically desirable may not be politically practical. The reality of the South African situation at present is the overriding importance of political sentiment. The long-term capital inflow is smaller than it used to be, and the recovery has

The current account of the balance of payments has had to be held in surplus to fund these flows plus to fund the current term capital outflow

This has meant keeping Brazil's economy very sluggish. But internally the country needs economic growth — growth which would put the external current account balance into deficit.

There is no reason to believe, though, that the "current account plus the term capital flows" of a balance of payments will not soon again be strong

South Africa's international balance sheet, always fundamentally sound, has been considerably improved by the recent phase of repayment. More debts have been repaid with the current surplus of 1976.

The full benefits of money spent on infrastructure are yet to be enjoyed. There is reason for uncertainty in the short-run not for medium-term gloom.

An improvement in the political climate, or at no deterioration, would followed by the South can raid proving to be of the stronger current in world trade and financial markets.

S.J. 30/4/78 (156)

Worrying about the health of the dollar

WASHINGTON. — Finance ministers and central bankers from the 130 member nations of the International Monetary Fund gathered in Mexico City this weekend to worry over the dollar and the world economy in what has been called a rehearsal for the big power economic summit in Bonn in July.

South Africa's delegate to the IMF, Dr Pierre Groenewald, will not be there for a good reason. He has nothing to say.

"South Africa's particular problems within the framework of the world monetary system will not be at issue, and I can better occupy my time right here," he told the Sunday Times this week.

DIRECTORS

What Dr Groenewald means is that the issue of whether South Africa will join one of the national groups that hold one of the 20 seats on the fund's policy-making board of directors will not be decided in Mexico this weekend.

In September the IMF will have to reorganise the

powerful committee to make room for a third OPEC seat to be held by Saudi Arabia. South Africa was dropped from representation three years ago by Australia and, since then, has had no voice inside the fund's main councils.

There had been some thought that the initial scramble for seats would begin in Mexico. But the problems of the major industrial powers threatened by inflation, stagnation, and an unstable currency market will dominate the discussions.

"We will have plenty of time to shop around later this summer. We are in a good position and it would do us no good to push too hard too early," Dr Groenewald added.

For the delegates who will be there, the centre of the discussion is a plan to substitute the IMF's special drawing rights for official dollar holdings in order to take some of the pressure off the US currency SDRs, as they are called, were created 10 years ago as an

accounting device that represents the dollar and other "hard" currencies used by most nations to settle their international accounts.

IMF managing director H. J. Witteveen has proposed that the IMF make a major offering of new SDRs to member central banks in exchange for dollars. The dollars would be put into a frozen account where they could not be used, but the central banks could draw interest on them and use the SDRs to settle trade bills instead.

RESERVES

The British delegates to the IMF interim committee meeting this weekend are known to favour the Witteveen plan. But the West Germans, who hold large dollar reserves, and the Americans, are understandably wary of the plan. One US objection is that it would do little to mop up the private holdings of dollars which are the real cause of the unstable dollar rates of recent months.

By JIM SRODES

US gold demand jumps sharply

By JIM SRODES

WASHINGTON. — Gold dealers apparently paid more attention this week to the threat of double-digit inflation in the United States than to the threat of a US Treasury gold sale.

In spite of the International Monetary Fund's monthly auction on Wednesday, and with the prospect of another 300 000 ounces coming on the market on May 23, gold prices boomed by more than \$2 an ounce in London and New York.

The bad news was that White House advance economic indicators were tracking a sharp rise in wholesale prices around the country.

This leading indicator jumped at an annual rate of 15.6 per cent for the sharpest rise in 3.5 years and more than double the inflation pace predicted by Carter administration officials earlier in the week.

Bids

Yet there was no lack of bidders at Wednesday's IMF auction which drew an average bid of \$170.40 an ounce.

Moreover there were bids for more than 3.1-million ounces, nearly three times the 525 000 ounce offering.

Part of the reason for the bullish prices for bullion is as American inflation grows, so does the appetite for gold. Not only have the volumes of various gold import categories risen, but the price rises for various fabricated jewelry products actually contributed to the wholesale price index increase that is worrying the White House.

At least part of the bullion surge is due to the booming US market for gold coins — 90 per cent of those sold in the American retail arena being South African Krugerrands.

...and SA gets pat on the back from the IMF

WASHINGTON. — Using words like "significant" and "encouraging" a top-level team of economists from the International Monetary Fund this week turned in their report card on the turnaround in the South African economy.

Even though the IMF staff report is clearly marked top secret, it has already been circulated among the highest levels of the private-banking community in New York and London.

This is what really makes the views of the three-man team from the international agency important — it is in effect South Africa's credit rating. And the rating is good.

The IMF team spent a fortnight in South Africa during early March, interviewing everyone from Finance Minister Owen Horwood to Reserve Bank chief Gerhard de Kock.

The fund's visit was routine enough and for good reason, there are R400-million in outstanding borrowings from the IMF charged to the SA account, more than R75-million of which must be repaid this year.

But what will have the big banking houses around the world taking a close look is the IMF team's report that the Government's tough policies of wage, price, credit and monetary restraints have paid off.

BY JIM SRODES

In fact, the restraints have paid off to the point where the international agency's economists have urged Senator Horwood, et al that a "cautious and gradual" relaxing of restraints might help SA's persistent problems with inflation and unemployment. The Government got high marks for.

● Pushing the Government's budget deficit from 6.3 per cent of GDP in 1976-1977 to 5.5 per cent last year with equal reductions of domestic bank credit and containment of money-stock growth. The fact that the exchange rate between the rand and the dollar remained unchanged last year after the 1975 devaluation was also considered a plus for SA.

Saluted

● The IMF saluted, and foreign bankers will note, a "dramatic improvement in the SA current account in 1977" from the deficit of R1 600-million to a surplus of R750-million which works out to a swing of 7.5 per cent.

● The IMF did not disagree with an SA Government forecast that the price of gold would average \$170 an ounce during the year and noted that a \$10 an ounce increase would result in a R200-million improvement in the SA current account. And the future?

Both the IMF and SA economic strategists apparently agree that the word for 1978 is "steady as she goes". Wage and price restraints are considered "essential" although a "gradual and cautious relaxation of fiscal and monetary policy restraints might help the economy and its unemployment problems."

The IMF team even went so far as to recommend to Pretoria that a "modest" expansion of money-supply growth and credit-expansion rates might not be a bad thing during the second half.

But the cautious view of the future, which includes the hint that South Africa might be better off if it unlinked the rand from its peg on the dollar, did not obscure the fact that the global economists were crediting South Africa with a "remarkable success in reversing its balance of payments problems."

The reversal in fact accounts for a shift from a deficit of nearly six per cent of South Africa's total output of wealth in 1976 to a surplus of two per cent in 1977.

Not that the IMF economists were totally bullish on the future. They recognised that SA, "because of restrictive policies and low business and consumer confidence due to political developments has come through the longest and

most severe recession," in its postwar history. Real growth in the SA economy last year was less than half a per cent compared with 1.3 per cent in 1976 and the six per cent boom of the 1960s and early 1970s.

The fund report also noted the 1.7 per cent persistent jobless rate for whites and the 12.4 per cent jobless rate for "economically active" blacks, the reversal of immigration patterns and the persistent 11 per cent consumer-price inflation as genuine threats to South Africa's long-term credit rating.

Out put

The IMF team conceded an "uncertain medium-term outlook" because of SA's external political problems and the lack of confidence that the country's business men are showing in making fixed investment in manufacturing output.

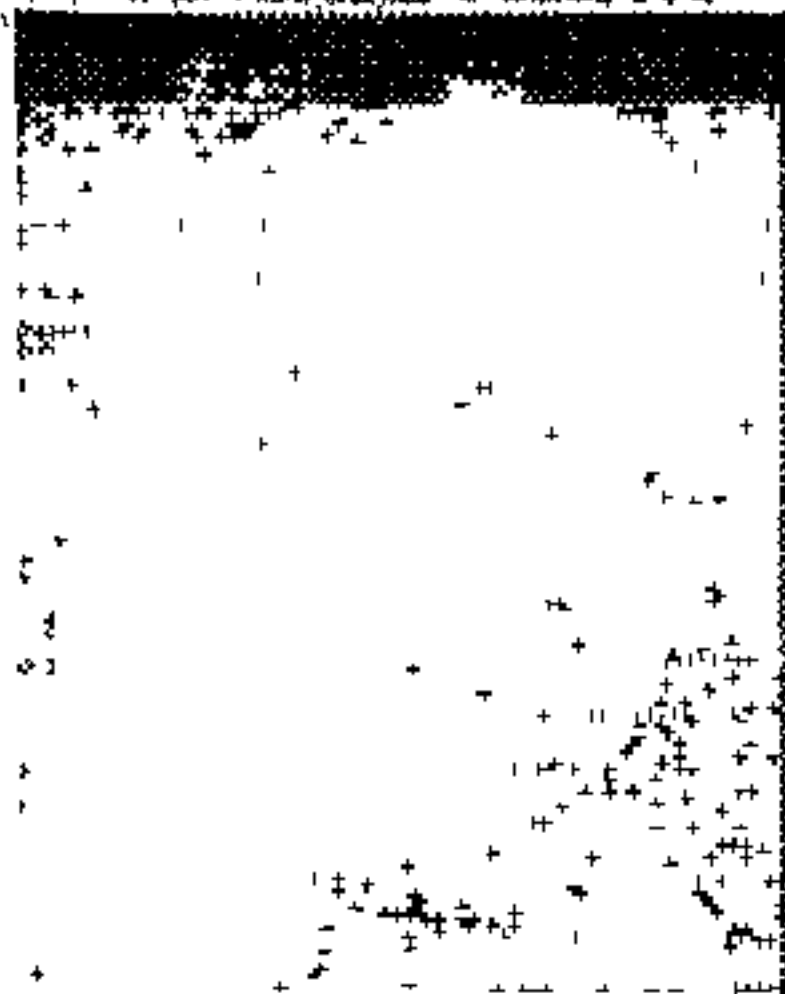
But the fund team felt much of the drag on the SA economy could be offset by a "significant" rise in capital spending by the Government's own public corporations and it noted the ability of many of the nation's commodities and minerals industries to gear up quickly for any revival in commodity prices.

The fund economists even assumed the worst case which included sugar-export restrictions, mineral-export cutbacks because of a glo-

bal steel-industry recession, rising SA imports and a devaluing rand in the year ahead.

Nevertheless, they concluded, "The current accounts (of South Africa) are expected to remain in substantial surplus in 1978 because of the sizeable rise in the net value of gold output even though that surplus may decline towards the end of 1978."

And that's all the private-banking community needs to read.



Treasury Secretary,
Michael Blumenthal

US hopes gold

Sun. Times Bus.

sale will

156

ease problems

WASHINGTON. — The US Treasury finally dropped the other shoe this week. There will be an American gold sale.

One of the small ironies about the treasury's decision to auction off a small quantity of its bullion holdings is that it took the Japanese Government to get the Americans to make the long expected move.

Another irony is that in so doing, the American gold action contradicts its long standing argument that gold has no role in the world monetary system.

On Wednesday morning the Japanese Ministry of International Trade and Industry announced it would begin stockpiling an undetermined but large quantity of gold.

The gold purchases would be used to soak up some of the huge trade surpluses that Tokyo is embarrassed to have on hand.

The gold sale plan had been in the works since late January and is intended as a symbolic gesture to world money markets. The idea is that a gold sale would end speculation that has forced the dollar into a rapid decline this year.

But Treasury Secretary, Michael Blumenthal, decided not to make the announcement until he returned from Mexico City later this month from an IMF conference. Then the Japanese made their announcement and thereby forced the Americans to speed up their timetable.

Chaos ensued and at one point one Treasury Press

By JIM SRODES

aide was denying gold sale reports as another handed out copies of the announcement. The sale details are as follows.

- The first sale will be on May 23. There will be an initial series of six monthly auctions with the sales scheduled for the third Tuesday of each month. Approximately 300 000 ounces of American gold will be offered at each of these six sales.

- The General Services Administration, the same agency that held the Treasury's two 1975 sales, will conduct this series. Bidding will be by the bid price method whereby buyers pay the actual price they offered.

The minimum bid will be for 400 ounces and a \$10 an ounce deposit must accompany each bid.

- There are two special provisions to note. One is that the Treasury "will not knowingly" sell to foreign governments or central banks. The other is that at sometime after the first several sales, the Treasury staff may consider whether to also accept payment for the American gold in West German marks.

At first glance, the gold for Deutschmarks idea seems insanity itself. Even Assistant Secretary, Fred Bergsten, who devised the plan, concedes that a sale of American gold to buy up

marks would seem to benefit marks and not dollars.

But as Mr Bergsten told the Sunday Times, "first of all the amount of gold we will be selling is modest in its ability to reduce our payments deficit in the first place.

"But there is something to be said for an objective of building a small reserve of Deutschmarks to be used to counter disorderly currency markets. It's time the US considered holding even a minimal amount of some other international reserves besides dollars.

So what does the gold sale add up to?

Not much really. The 1.8-million ounces that will be offered between May and October certainly won't destabilise the world price. Nor will the possible profit of \$260-million the Americans get provide much of a boost for the dollar, especially if some of those revenues are in Deutschmarks.

Mr Bergsten perhaps summed it up best: "When you take the gold sale together with a number of other steps that the administration has begun (the new war on domestic inflation, for example) it is evidence of our determination to solve our economic problems both domestic and international.

A symbol then. And perhaps not a very convincing one at that.

Bonus for investors

THE BUDGET uses a number of points for investors and savers, who this week have a three-page YOUR MONEY guide, appearing in pages 7 to 9.

Highlights include Brian Goodall's regular contribution on investment opportunities, listing all the options. Raymond Ackerman, outspoken chief executive of Pick 'n Pay, hits out at restrictive practices and discusses the possible outcome of the new 4 per cent sales tax.

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Doubt over plans to stabilise currencies

BUSINESS TIMES



By NEIL BEHRMANN

LONDON — The IMF interim committee meeting in Mexico last week emphasised once again the quandary of Western Finance Ministers who are trying to remedy the consequences of years of economic mismanagement.

The meeting concluded that inflation and unemployment should be reduced to avoid a severe world wide recession. "Unless growth rises faster than seems probable, there will be a vicious circle of deflation in both surplus and deficit countries," warned the British Chancellor of the Exchequer, Denis Healey.

Foreign exchange markets had expected some further policy statements to maintain the recent strength of the dollar. But they were disappointed. The managing director of the IMF, Johannes Witteveen, had suggested that the international monetary fund create a "substitution account."

His scheme is that central banks will be allowed to convert some of their dollar balances into special

drawing rights, the "paper gold" made up from a mixture of currencies.

The IMF would hold the dollars in this "substitution account" and there would be less pressure to sell dollars on the foreign exchange markets. The United States, however, is not prepared to accept the proposal at this stage.

Another currency stabilisation scheme also came under scrutiny. At a recent summit meeting in Copenhagen, European heads of state agreed that they should seriously move toward a common European monetary policy. These changes aim at stabilising their currencies and isolating them from the US dollar.

The monetary programme would enhance the economic independence of Europe and be the first step towards a far-reaching economic and monetary union. The British pound, French franc and Italian lira would be linked to the German

mark and other stronger currencies.

So far, there is no intention of pushing these weaker currencies back into the European "snake" which links the Dutch guilder, Danish krone, and Belgian and Luxembourg franc to the German mark.

Instead, the policy envisages "target zones", which would set broader and more flexible limits to currencies. British, French and Italian central banks would intervene to stabilise their currencies if they drifted out of these target areas. As growth rates and inflation rates come more into line, the targets would be narrowed.

In addition, the Common Market countries would impose consistent money supply policies to keep exchange rates and inflation in check.

Officials also hope to build reserves which would be used to stabilise the currencies. Eventually, the ul-

timate hope is that the European unit of account — a basket of European currencies — would be used more widely in national and business transactions.

The West German Finance Minister Hans Matthoefer said that in talks with US Treasury Secretary, Michael Blumenthal, in Mexico the European currency zone idea was studied. But the idea of European currency stability would be implemented in close co-operation with the United States.

Germany and the United States agree that, as yet, there is no possibility of a substitute for the dollar as the world's leading reserve currency. With the Bonn international summit meeting coming up in July, the currency pot is likely to merely simmer in the next few months.

But the general view in Europe is that the dollar crisis is far from over. Nor is there any certainty that European and IMF plans will either come to fruition, or alleviate currency uncertainty.

STAR 8/6/78

(156)

Gold thunders to \$183.09 at 22nd auction

Michael Chester, Financial Editor

The gold price thundered to 183.09 dollars an ounce at the 22nd auction by the International Monetary Fund in Washington yesterday, to set a new record in the series of sales.

It marked a 12.69 dollar leap from the level fixed at the last auction a month ago, and added reinforcement to a forecast by London bullion brokers Sharps Pixley today that it was now only a matter of time before the price broke above the 200 dollar level it almost touched in the 1974 gold rush.

The latest sale was the first at which the IMF also allowed non-competitive bids from national central banks around the world, aside from the normal competitive bidding from the major banks and bullion dealers.

Significantly, no fewer than 39 countries rushed in to take advantage of

the chance to increase their bullion reserves, taking the first opportunity in a new agreement which gives them the option of buying up to 3.7m ounces between them over the next 12 months.

The central banks mopped up 925 000 ounces of the total of 1.4m ounces which the IMF sold off yesterday at the 183.09-dollar average.

The balance of 470 000 ounces went to private bidders at prices between 182.86 and 183.92 dollars.

Thus the auction prices have soared by more than 56 dollars an ounce since the first in the series precisely two years ago when the IMF sold at an average of 126.98 dollars.

All in all the IMF plans

to off-load 25m ounces in the auction series which still have two years to go and which are used to raise finance to aid the poorer nations.

Even ahead of the latest sparkling result, Sharps Pixley said in its monthly market report that it now went along with predictions that gold will eventually break above its 1974 peak.

The new sentiment underlines the complete turnabout from the bearishness only in April when the United States sounded the alert it was going to auction bullion too.

Sharps Pixley says the market reassessment of the impact of more gold sales shows a wearing off of the initial psychological effect of the US announcement, and a feeling that gold can absorb the selling in its rising trend.

However, the brokers add that despite the impressive price advance, in May, it seems difficult to see the rise pushing on without some reaction and a period of consolidation.



Dollar could lose its reserve

By Finance Editor Alan Peat

ALTHOUGH many world currency observers see the American dollar's reserve currency role as advantageous the American Government shows signs of moving from that status

In an interview with the US International Communication Agency, the Under-Secretary for the Treasury Anthony Solomon said the US would not resist a growing reserve role for either the IMF's Special Drawing Rights or a European monetary unit — if one is established.

This change in the currency reserve role set-up, would of course,

see the dollar move out of its present reserve currency position.

Should that happen, the dollar would fluctuate as any other currency which is tied to the economic position of its country. It would also be a strong weapon for the anti-dollar/and link up brigade.

However, the event is not likely to happen in the near future, if at all.

As Solomon said: "I do not expect the SDR, another national currency or a European currency unit to take over any substantial

part of the dollar's reserve role in the near future.

"... if the European Community as a whole develops monetary union and a unit of account, and is willing to do everything that is required for that currency to develop that reserve currency role, then, assuming it is a smooth evolution, we would be perfectly happy with that."

Although US officials at the Bonn economic summit opposed closer monetary ties in the EEC, Solomon sees no

objection to these perfectly compatible with the broad international monetary system as we know it. And if the European make that decision, it evolves in a more dual way... it will be perfectly compatible and we would have no trouble with it."

Top South African economist Merton I also sees any move from the dollar reserve currency (a possible new reason unlinking the rand unlikely. But, he said it were put into pra

FREGULS	3325
F.S. SAAI	185
HARMONY	7358
LORAINIE	1878
P. BRAND	1785
P. STEYN	15208
ST. HELNA	1620
UNISEL	355
WELKOM	580
W. HOLDS	3750
AVERAGE	
SECTION VOLS	THIS

MIN. - GOLD - WEST	
BLYVOOR	5878
DEELKRL	172
DOORNS	5308
EASDRIE	1370
ELANDS	460
ELSBURG	228
KLOOF	1100
LIBANON	990
VENTER'S	430
WES DRIE	4000
W. AREAS	340
WSTN DP	1650
AVERAGE	
SECTION VOLS	THI

MIN. - GOLD - CURT.	
AF LEASE	470
E. DAGGA	65
RD LEASE	32
VILLAGE	30
WIT G. H.	100
AVERAGE	
SECTION VOLS	THI

(f) Verwarming

(g) Watervoorsiening

(h) Hoeveel mense, behalve werker self, woon in die huis?

14. Werker se vorige werk

Plek (plaas, dorp, Tydperk Soort werk Weeklikse loon
distrik)

1.

2.

3.

4.

5.

Rede waarom werker elke werk verlaat het:

1.

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social and economic problems, who were usually far more interested in artisans and craftsmen of the traditional type than in industrial wage-earners. The fact that many of such large-scale industrial enterprises as existed—the Ural ironworks in Russia are a leading example—were geographically remote from any large town also helped urban life to retain its predominantly mercantile and handicraft character almost

Rand falls only 1% ^{RAM Bus.} against major currencies ^{3/8/78} 156

By HOWARD PREECE
Financial Editor

THE rand has fallen by little over 1% this year against all major currencies on a weighted average basis in spite of the steep fall of the dollar to which it is formally linked.

There has been a drop in the rand of 2% to 2.5% since May, but in the early months of the year the rand was actually rising.

This was because sterling was sliding at that stage while the dollar was making a small and temporary recovery.

The dollar accounts for 30% to 35% of South African trade, depending on whether oil and gold are included or not.

Sterling accounts for a further 20% or so. This means, of course, that with the rand linked directly to the dollar and sterling still weak until recently, the rand was holding its own overall although slumping heavily against such currencies as the mark, yen and Swiss franc.

Vitally important internationally though these currencies obviously are, their movements are individually of fairly small importance to South Africa.

Even collectively they are more than matched by the dollar and sterling alone.

This suggests, to me, that the Government is perfectly right not to take any action about the rand's exchange rate parity and its linking to other currencies until the De Kock Commission reports, perhaps in October.

The small overall movement in the rand shows that South Africa is not being buffeted by international currency upheavals anything like as much as might generally be supposed.

It is true that over the past 12 months the rand has fallen between 5.5% and 7%.

The variation in the calculation arises from the fact that different banks use slightly different formulas in doing their sums.

Central Merchant Bank, for example, estimates that the rand has fallen by about 5.6% since August last year.

Standard Bank calculates the figures at about 5%. Barclays National Bank, however, puts the level at around 7%.

The role of oil, and gold and

fractionally different weightings for the various major currencies are responsible for the small differences.

But is that effective devaluation? I think not. In spite of the tremendous recovery on the current account of the balance of payments and latterly the new gold boom, the rand is permanently susceptible to speculation against it because of political fears.

The securities rand discount, now around 37%, is an indication of how strong those fears are.

The downward float of the rand over the past year with its dollar link has eased what would otherwise been much stronger speculative pressures on a formal devaluation.

But if the overall movement of the rand has been largely satisfactory — or at least as satisfactory as any other feasible exchange rate formula is likely to have proved — that does not mean that currency gyrations do not give major headaches to individual traders.

The Minister of Finance, Senator Horwood, told the International Monetary Fund annual meeting in Washington last year: "Whatever the merits of a system of floating rates for the large industrial countries, it represents serious difficulties for the smaller countries."

It would be wishful thinking to suppose that the De Kock Commission can wave away that problem.

Whatever system is adopted (a genuine free float is out of the question, rightly so in my opinion) it will not insulate South Africa from these world monetary upheavals.

The best solution for traders is still to take out forward cover, the cheapest insurance available, on perhaps all but short-term deals in dollar.

But it must be repeated that South Africa has not suffered anything like as much (if she has suffered at all in comparison with any alternative) from the dollar link.

And it must be stressed that the link with the dollar is purely voluntary. It can be ended, or the rate changed whenever the Reserve Bank and the Government think fit.

Dollar gyrates as gold waits for IMF

R.A.M. Bus.

3/8/78

(156)

LONDON — The price of gold was fixed at \$203.25 in London yesterday morning and afternoon. Tuesday's second fixing was \$205.10.

Yesterday's second fixing session was again lengthy.

Gold fluctuated during the session, dropping to an indicated price of \$202.10 at one stage.

Trading became quieter after the fixing with quotes straddling the fix price as operators awaited the result of the International Monetary Fund auction.

The dollar improved marginally against most strong currencies in confused trading.

On the foreign exchange markets, rates fluctuated widely, reflecting continued monetary uncertainty.

The yen at one point rose to a record 183.80 to the dollar on the Hong Kong foreign exchange market — its highest rate against the dollar since the Second World War. But when the London exchange opened, the dollar firmed to 186 yen. In Tokyo, the Bank of Japan stepped into the market for the first time this week buying \$100-million to \$120-million.

In Tokyo, Japan's International Trade and Industry Minister, Mr. Toshio Komoto, urged the Bank of Japan to intervene more actively on foreign exchange markets to stop the yen's rise. The bank is estimated to have bought \$2 000-million last month in attempts to hold down the yen.

The dollar has lost over 15 yen in value since July 24 and the Japanese Government is reported to be considering the

imposition of exchange controls to stop the yen from rising further.

The Swiss franc, which together with the yen has been the other major currency benefiting from currency unrest, yesterday rose to record levels in Zurich against the mark and sterling.

The dollar opened very weakly at 1,7170 Swiss francs in Zurich, but soon firmed to 1,7313. Its lowest rate against the Swiss franc was reached in London on Monday when the dollar briefly sank to 1,7050 francs.

The dollar improved against sterling to \$1,9241 from Monday's closing of \$1,9257 and in Zurich the pound sank to a record low of 3,3350 Swiss francs.

The dollar firmed to 2,0477 marks at one point in Frankfurt and in London it was trading at 2,0446 marks at midday — a substantial improvement on Monday's closing London price of 2,0408.

In Zurich, the mark was traded at a new low of 84.75 Swiss francs a 100 marks.

In Paris, foreign exchange dealers said the dollar's recovery was partly a technical reaction to the dollar's recent fall, but was also due to fears that central banks might step up intervention to support the dollar if it continued to weaken.

— Sapa-Reuter

US is ^{RDM} studying ^{248/78} IMF loan ⁽¹⁵⁶⁾ proposal

WASHINGTON. — A senior Treasury official said the US had not yet decided whether to make any drawings from the International Monetary Fund as part of the effort to bolster the dollar.

But the Assistant Treasury Secretary for International Affairs, Mr. Fred Bergsten, told reporters a drawing from America's reserve position with the IMF was one possibility being studied by the Carter Administration.

The Administration said in March that it was prepared to borrow from its IMF reserve — foreign currency borrowings which would not entail any IMF conditions as part of an overall effort to aid the dollar if it should become necessary.

The US has a \$4 400 million reserve position at the IMF. It also holds about \$3 000-million worth of special drawing rights, the IMF's internal accounting unit, which could also be used to defend the dollar.

Mr Bergsten said there had been no change in US policy of intervening in foreign exchange markets only to prevent disorderly markets.

He said the Administration rejected the idea of imposing foreign exchange controls as a method of aiding the dollar.

The dollar ended slightly weaker in New York from opening levels last Friday, although firmer than Thursday's close, in quiet trading.

It firmed initially on reports that the US might draw on its IMF funds.

Spot gold for London delivery lost about \$2 on the day to finish at \$198,40/80, and was slightly above the day's London close at \$198,00/50.

Ranger

MEMORIAL

SATURDAY, SEPTEMBER 30, 1978.

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MORE 'PAPER GOLD'

THERE IS something quite awe-inspiring about the way the International Monetary Fund governs the realm of world finance. Certainly no other global organisation exerts such powerful influence over the affairs of nations. Governments with ailing economies meekly take their orders from it in exchange for its financial backing, and when its coffers look like running low it simply waves a magic wand to replenish its resources.

Once a year the IMF meets to assess the state of the world's monetary system, which is becoming increasingly dependent on the Fund's so-called Special Drawing Rights. Dubbed "paper gold" by the irreverent, an SDR is ostensibly worth 1.26 dollars — a value determined by relating it to a basket of 16 leading currencies. In fact, it is worth nothing because it has no actual monetary base.

Yet this imaginary wealth now forms part of the world's currency reserves and is being used extensively to bolster the importance of the IMF as the world's banker. So at its annual meeting in Washington this month the Fund decided in its wisdom to add another 12 000 million SDRs to the kitty, and to increase the rate of interest on them.

Is it any wonder that there is a flight to gold? Is it likely, for in-

stance, that Arab oil sheikhs, whose whims concerning the price of oil can change the monetary scene overnight, would ever agree to accept the role of a phantom currency in part payment for their precious product?

If there is any consolation for South Africa, it is that as long as the IMF continues to print more money, thus helping to stoke the fires of inflation, there is sure to be a growing demand for gold to act as a hedge against rising prices and unstable currencies.

There was a time when the world's monetary system was securely tied to gold and to the strong reserve currencies of sterling and the dollar. That was an era of relative stability, and if the world really wants to return to those halcyon days then it will have to devise some comparable monetary formula.

Perhaps the most promising aspect of this year's annual meeting of the IMF was President Carter's pledge — indeed he publicly staked his reputation on it — to fulfil America's contribution to world economic recovery by taking firm steps to strengthen the ailing dollar. With the world's monetary system tied to a strong dollar and a realistic gold price, the role of SDRs might be elevated to something more meaningful and the long night of currency uncertainty might draw to an end.

South African Railways and Harbours - has its own health system and looks after its own industrial health affairs. But the Department of Health should have overall control.

Department of Water Affairs - is responsible for the supply of water and should exercise direct control over industrial health problems pertaining to such a supply.

Department of Defence } the Commission recommends that these
Department of Industries } Departments retain direct control.

Chapter VII. Department of Health and Local Authorities.

The Public Health Act provides that local authorities are empowered to take steps to prevent the occurrence of infectious or preventable disease. They are also empowered to appoint medical officers of health and sanitary inspectors.

The Commission sees no reason why sanitary inspectors cannot be used as industrial health inspectors after a little more training. Local authorities should be encouraged to do this.

The statement said the IMF had 200 affiliated unions in 68 countries.

The chairman of the South African Coordinating Council of the IMF, Mr Barney Bower, strongly objected to the boycott call in Johannesburg today.

"How can I support a boycott, when the union concerned refused to negotiate," he said.

"We are not saying that Eveready was not at fault. But the union did not follow the provisions laid down under South Africa's Industrial Conciliation Act."

Mr Bower said this opinion was shared by those of the 11-member unions of the South African Council of the IMF which had not walked out of the council's meeting in Johannesburg last week.

an example of an efficient industrial health inspectorate. They inspect factories, consult managements, train staff, make recommendations with respect to industrial health, but have no power to enforce regulations. The inspectorate acts in the interests of three million workers. Working on the same proportions, the Department of Health should appoint six industrial hygienists. The Commission recommended that a unified health inspectorate be formed as an Industrial Health Inspectorate Branch within the Department of Health. The Department of Health should be responsible for the determination

of standards and threshold limit values to be observed by industries. Industrial workers are subject to occupational diseases that are caused by exposure to excessive concentrations of hazardous substances over periods exceeding certain minima. Occupational diseases are also caused by faulty handling of such substances. But individuals differ greatly in susceptibility. Tests exist to determine the presence of industrial toxins in the environment and body fluids e.g. alphafoetulin, which is secreted in the urine of persons suffering from lead poisoning. Determination would be in the form of biological monitoring.

Because the origin of occupational diseases is a function of the concentration of harmful substances in the environment, the period of exposure, the method of handling substances and individual susceptibility, the Commission considers it more rational to lay down maximum threshold values for various substances, than to lay down rigid, fixed standard permissible concentrations.

The maximum threshold limit values for the factory environment relate to concentrations of harmful substances in the air and

xposed

Unions don't want ban on Eveready

By Sieg Hannig, Labour Reporter

South Africa's major metal trade unions are opposed to a worldwide boycott of Eveready batteries, called by the International Metalworkers' Federation (IMF) in a sequel to a Port Elizabeth strike.

The IMF's call on its 13.5 million members followed an appeal for such action by South Africa's National Union of Motor Assemblies and Rubber Workers.

About 200 members of that union lost their jobs as a result of the strike at the Eveready factory in Port Elizabeth last month.

"The IMF has called its affiliates worldwide to advise members not to buy Eveready batteries as long as the conflict with the Eveready company in Port Elizabeth has not been settled," said an IMF statement issued in Geneva.

OBJECTED

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"We are not saying that Eveready was not at fault. But the union did not follow the provisions laid down under South Africa's Industrial Conciliation Act."

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information can be derived from values and discretion. The object (of hazardous substances) in South Africa.

values for hazardous substances used in various industries. Much has been done to lower the concentration of dust, but no system for determining dust concentration, the

The Star Thursday December 7 1978

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IMF queue
the trigger

Gold climbs back to \$200 level

By Michael Chester, Financial Editor

The gold price climbed back to 200 dollars an ounce in Hong Kong today on a new upward curve inspired by the heaviness of demand at the mid-week auction held in Washington by the International Monetary Fund.

The 200-dollar level was regained on the heels of increases that carried the price to 198,625 dollars in London yesterday and on to 199 dollars in New York as the action moved around the time zones.

Dealers were less surprised by the 196,06-dollar average sales level achieved at the IMF auction than by the dimension of demand compared with the November auction, bids more than trebled to nearly 2m ounces in the scramble for the 470,000 ounces on offer.

The heaviness of the bidding took a lot of the worry out of the anxieties

over the decision of the US Treasury to raise the amount of bullion on offer at its own series of auctions to 1.5m ounces a time beginning December 19.

The anxieties had already eased a little by the more recent disclosure by the US Treasury that the fineness of its bullion on sale will drop from the usual 99.95 percent — perhaps nearer to only 90 percent — at the January auction and onwards.

The fall in quality will be because the Americans will by then be digging into old stockpiles of bullion bars made out of

gold coins from the 1930s with the lower fineness.

London dealers already forecast that bidders will be cautious about the US auctions as they have to add the cost of refining the bullion back to 99.95 percent on to all else. The result may well be less interest in the US Treasury sales and more concentration on the smaller IMF sales.

Even so, the December 19 auction in the US, as one Far East dealer put it today, still hangs over the market like the sword of Damocles as far as short term prospects are concerned.

Indirect tax is generally characterised as being regressive in respect to income since it is usually the case that the tax at in proportion to income falls as income rises. The national conclusion has thus been that the desire to reduce inequality in the distribution of income commits one to a policy relatively high progressive income taxes and low indirect taxes. Consequently, it has been considered self-evident that increase in indirect taxation and a decrease in direct taxation involve increased inequality in the distribution of incomes. e, the desire for a system of taxation which reduces the inequality in the distribution of incomes and one which will increase incentives to work are normally incompatible.

call for social justice is a call that legal rights should coincide with moral rights, and that moral rights should be recognised by the law. But there is more than one conception of what constitutes moral rights. Particularly there is a reference of opinion between people who base moral rights mainly on merit, and those who emphasise the concept of need and equality. The determination of the burden of taxation that should be carried by people in different income groups is thus essentially a political and not an economic question. The role of the economist to point out the effects that are likely to follow the introduction of tax schemes of various degrees of progressiveness. A politician, with this in mind, has to choose the tax structure which seems to him to be the best. The point that must be emphasised is that the economist cannot unambiguously assert, as a matter of scientific truth, that a specific tax structure is either the optimum one or even that it is preferable to some other tax structure with a different degree of progressiveness.

optimum amounts or proportions of direct and indirect taxation are thus not determinate and a trade off is necessary. The effect of higher degree of progression on income distribution is certain, but the impact on production is unpredictable. The former is merely arithmetic, but the latter is largely a matter of social psychology. The adverse effects of increasing progression may be estimated only in terms of the prediction of human behaviour. Clearly both progress and justice are costly, and above all in terms of each other.

1. A METHODOLOGICAL INTRODUCTION

A tax change cannot be analysed in isolation. It is thus necessary to study the complementary fiscal measures taken, before evaluation or analysing GST.

1.1 Key taxation changes introduced in conjunction with GST

- (a) The 10% surcharge on income tax was abolished (estimated revenue loss for 1978-79 is R132 million).
- (b) The surcharge on company tax was reduced by 2.5% (estimated revenue loss for 1973-79 is R48 million).
- (c) The Bantu General Tax has been phased out (estimated revenue loss for 1978-79 is R9 million).
- (d) The import surcharge was reduced from 15% to 12.5%.

2. INDIRECT VERSUS DIRECT TAXATION

The introduction of GST marked a conscious trend to a greater emphasis on indirect taxation. Certain differences are evident in the explanation as to why direct taxes have no theoretical welfare superiority to indirect taxes. However, there is general agreement that no a priori argument can be made in favour of either on the grounds that the whole community will suffer less. The theoretical superiority of direct over indirect taxation must be regarded as something that cannot be proved. The partial equilibrium approach, which hypothesised the superiority of direct taxes, has been found wanting.

"It (GST) will bring about a gradual move from direct to indirect taxation in order to achieve a more balanced distribution of the tax burden. I am of the opinion that the time has come to redress this imbalance." Senator Horwood, Minister of Finance. But does an imbalance exist, and if so, what is the desirable one?

I.M.F.

7/5/78 — 31/12/81

Legacy of the IMF—unemployment, stagnation, misery, hunger *Guardian 7/5/78*

156

IN THE well-stocked armoury of the advanced capitalist world there is probably no weapon more pernicious or subversive than the International Monetary Fund. It is not so much a mere banking or financial institution as the political powerhouse of a contemporary imperial system, controlled and largely funded by the United States.

Small wonder that its 3,000 employees in Washington are agitating for their immense tax-free emoluments to be maintained at their present level (while the Treasury Secretary demands that they be cut). The workers at the fund know their true significance and worth, even if no one else does. They provide both the muscle and sinew of empire.

The fund has grown so powerful, in the 34 years since it was set up at Bretton Woods in New Hampshire in 1944 that no government in the capitalist world is able to borrow from private banks, or from the World Bank (the fund's equally sinister sister), or from other governments, without the go-ahead from the faceless bureaucrats at the fund.

And since the monstrous panoply of international trade has grown so vast that no government can survive without international borrowing, the fund has become the baleful arbiter of national politics, intervening on behalf of unrepresentative pressure groups, and upsetting the delicate balance of democratic institutions.

The officials may be anonymous, but their demands are no secret, nor are their formulae abstract. With the simple faith of medieval friars, they tour the world, offering their simple remedies for evil devaluation, cuts in public spending, and free trade. Among the original purposes of the fund, outlined at Bretton Woods, was the desire "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

This is the purposive message emblazoned on the banner of these contemporary fakirs. Yet in their wake they leave toppling governments, unemployment, stagnation, misery, hunger and repression. Rarely in the history of the world can there have been an organisation that has done so much harm in the name of doing good.

The situation will continue until individual countries, or groups of countries, have the strength and determination to break away from the IMF-dominated international economic system, to close their frontiers, and to establish, within geographically limited areas, self-sufficient economies capable of providing for the basic needs of all their inhabitants.

From the very beginning, as a result of the quota system for subscriptions, the United States has had effective control over the fund. And already at Bretton Woods in 1944 there was considerable controversy over the size of the subscriptions to be paid into the fund by each member government — since the size of the quotas governs control not only of the fund but also of the World Bank. No country can join the bank without first joining and obeying the rules of the fund.

The formula for calculating each country's quota was originally devised within the United States Treasury in June 1943 by Raymond Mikesell. According to Keith Horsefield, in his three-volume history of the IMF (Washington 1969), Mikesell had been told by Harry Dexter White, the assistant to the Treasury Secretary (and the principal architect with Maynard Keynes of the Bretton Woods agreement), that "the formula should use data for international trade and exchange reserves, and that it should yield a quota of about \$2.5 billions for

United States has a veto over any changes in the quotas. Consequently the IMF has never in its history taken a significant decision contrary to the desires of the United States.

In addition to the system of weighted voting derived from the quotas, a series of other factors push the fund almost inevitably into a pro-American position. Although the managing director of the fund is always a European (as a result of "an informal understanding" that the president of the World Bank is always an American), at an early stage, in 1947, at least three of the eight most senior posts on the IMF staff were held by Americans.

And in 1949 a deputy managing director of the fund was appointed — inevitably an American. This development, writes the historian of the IMF, had the unfortunate result "of strengthening a suspicion in the minds of many members — perhaps particularly European members — that the fund's policy was being dictated by the United States."

One should also note that it was the principle, embodied in a rule, that the language of fund documents should ordinarily be in English. It was not until the 1960s, which saw the addition to

reluctant to join or rejoin. For in practice the fund demands far more information from a state capitalist country than from the private enterprise economies. Member governments of the latter, for example, are "under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed." Czechoslovakia was expelled in 1953 largely because it failed to divulge details of its economy, and Poland withdrew in 1950 complaining that the fund had become "a submissive instrument of the government of the United States."

With the information that it holds on monetary and financial problems in every member state, the fund is then in a good position to prepare "studies designed to assist members in developing policies which further the policies of the fund" — policies which may not, one might add, necessarily be in the interests of the country concerned.

Not only does a member of the IMF have to disgorge all its economic secrets to fund headquarters in Washington, but it also has to subscribe to a whole series of rules about its monetary conduct.

These rules, of course, are built into

the fund's intervention in the affairs of debtor nations early established.

With the coming of African independence in the late 1950's and early 1960's, the fund became yet more important in terms of influence over the monetary affairs of member states. In many cases fund officials were packed off to run the economies of individual countries almost single-handed.

In 1963 the fund asked its members to make available suitable experts for temporary duty in central banks in the underdeveloped world. Two years later 21 requests had been dealt with and, the IMF history of itself recalls, "experts had been supplied to provide for central banks, three governors, one president, four director-generals, two controllers, one general manager, one director of research, one consultant, three advisers and five other experts."

Gradually the foreign experts have been replaced by the home-grown variety, that "special subcategory of government officials," Cheryl Payer calls them in her book on the IMF and the Third World, "the Western-educated economists called 'technocrats' who return to their native country to occupy important posts in the ministries of finance and trade, and on the special commissions for economic planning and development."

"These technocrats have been indoctrinated with the Western liberal ideology of development, and tend to support IMF diagnoses and prescriptions." The fund now runs an institute in Washington for the training of central bank and finance ministry officials. It disperses its graduates, indoctrinated with the fund's ideology, throughout the Third World, "where they form an old boy network of support for fund principles."

For the IMF could not operate at all if it did not have willing conspirators in the debtor countries. As Professor Fred Hirsch once wrote at a time when Britain was fast turning into a Third World country, "the IMF is largely the vehicle by which domestic groups — including the City, the Bank of England, and the Treasury — can get extra power behind their elbows to jog Her Majesty's elected ministers." These "domestic groups" exist in all Third World countries too, often funded and fuelled by the IMF itself.

The fund talks of reform. Certainly its role has changed since August 1971 when the Bretton Woods consensus collapsed. But what is needed is not new wine in old bottles, but an entirely new economic order whereby countries control their own affairs, within their own borders, without the guiding hand of a wolflike Big Brother in the sheeplike clothing of the IMF.

A polemic against the International Monetary Fund by Richard Gott

the United States, about half this for the United Kingdom, and such figures for the Soviet Union and China as should assure them third and fourth places, respectively, in the list of quotas.

"In order to achieve this result, Mr Mikesell also introduced data for national income. These last had usually to be approximated, and their uncertainty afforded opportunities for making minor adjustments to the suggested quotas when these did not conform to political realities."

In practice the "formula" proved insufficiently flexible for the political nature of the task. White himself recalled in 1947 that there had been general agreement at Bretton Woods that "the formula could only be useful as a point of departure for discussion and negotiation." The quota committee, he said, had "reached agreement with all but a few delegations, but generally not at the amount set in the formula."

According to Professor Robert Moss, a member of the French delegation, the quotas in the end were established more or less arbitrarily by the United States in a series of deals. The French have remained distrustful of the IMF to this day.

The importance of the quota system is that it puts the United States way ahead of everyone else. In addition the

membership of 18 French-speaking countries, that the rule began to be changed.

United States control over the IMF had been further increased at the very start as the result of a stipulation that the principal office of the fund should be located "in the territory of the member having the largest quota."

In negotiating this clause, the United States delegation alleged that Congress would not support the IMF unless its headquarters were in the United States. Britain and France demanded that at least the headquarters should be in New York, near the United Nations, but the Americans refused to accept anywhere other than Washington. Among the advantages of this decision, the site committee pointed out, was that "in Washington the officers of the fund would have ready access to data and material relating to the economies of many countries."

"Ready access" to national economic data is, of course, one of the principal things that the IMF demands from its members. As a result the fund (and therefore the United States) has at its disposal a unique amount of information about the economies of all the countries in the capitalist world.

Small wonder that Communist countries have, until recently, been

the articles of agreement of the fund. Each country that joins theoretically should know and understand what it is in for. What is less clear in the articles of agreement is that the member country should have to submit to the tutelage of the fund when it asks for a loan. This practice, built up and entrenched over the years, began in September 1947 when a request for an IMF loan was submitted by the government of Chile.

The managing director informed the Chileans that they had asked for too much. In any case, he added, "a clearer indication that appropriate fiscal and monetary measures were in prospect" would be necessary. At a meeting of the fund's executive board, however, it was pointed out that there was nothing in the articles of agreement that permitted the fund to attach conditions to the use of its resources.

The fund, however, insisted that since it was allowed to deny access to its resources to members if it was of the opinion that a member was using them "in a manner contrary to the purposes of the fund," it could therefore exercise less extreme powers. The Chileans were told that they could have a loan if it was "accompanied by an indication that steps for internal fiscal and monetary reform were contemplated." Thus was the pattern of

IMF sales set gold at new record levels

7/6/79
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By Michael Chester, Financial Editor

Gold streaked to still higher record levels today when the International Monetary Fund announced in Washington that the 440 000 ounces sold at its auction yesterday fetched an average price of 280,39 dollars

Sales went to bidders whose tenders ranged between 280,22 and 281,37 dollars an ounce — a spectacular increase when compared with the previous record of 252,53 dollars set at the March auction

The IMF stated that the total bidding reached 1 452 400 ounces — nearly three times the amount actually on offer.

Since the IMF auction average is regarded as virtually a new platform for world market prices, the result now appears to

make forecast of 300 dollars by the year end more and more credible.

The news is particularly encouraging for South Africa, by far the largest gold producer of all and which is now increasingly relying on higher bullion income to help counter-balance the soaring costs of oil imports

The new gold boom has now carried world prices more than 25 dollars an ounce higher than the previous peaks reached in February — worth an additional R500m a year to

export income if the new levels are held

Ahead of the IMF auction, gold had swung as high as 280,75 dollars before it settled back to 279,50 dollars at the close in London last night.

In New York, which was in business later because of the moves of the market time clocks but still closed before the auction result was announced, gold touched a new US record at 280 dollars

And it went on to 280,25 dollars in Hong Kong this morning.

IMF warns US to control inflation

Argus Bureau
NEW YORK. The International Monetary Fund says the United States' economy could plunge into a long and severe recession unless inflation is brought under control.

In a frank report prepared for internal use, the IMF said President Carter's advisers knew of the difficulties and had made deliberate policy

decisions to keep unemployment above six percent for the period necessary to reduce inflation.

Because the report was prepared shortly before the increase in world oil prices last month, its assessment of the impact of inflation on the US economy is understated.

The US has slipped into economic conditions that

the IMF warned about two months ago.

The IMF urged the Carter administration to reduce Federal spending by even more than it proposed to in the fiscal 1980 budget and to tighten monetary policy to restrain the demand of consumers and business.

The US does not draw from the fund to meet its balance-of-payments deficits so the analysis is useful only as an independent evaluation of the US economic condition.

The report was not made public by the IMF,

but a copy was obtained by the Washington Star.

The gloomiest part was the warning that a dangerous recession loomed on the economic horizon.

What seems clear is that if high inflation and inflationary expectations are not dealt with decisively, a serious recession will follow, the IMF said.

Cultural data. The behavioural outline, to the eastern of problems associated with the eastern stream and in eastern and southern cultures included in the not have a high relationship material and the

Both models were similar to those queried by Birdsell (1957) for human groups colonising uninhabited areas. Four values for carrying capacity were used. one, five, ten and fifteen people per square kilometer. A value of five people per square kilometer has been used as the carrying capacity for simulations on subsistence agriculture values coincide with low but the possibility remains they may have increased

input populations. 100, was conceptualised as a circle was set at 10 km

DATA
Quantitative data. The rates of population growth used in the simulations were two, three and a half, and four per cent per annum. The values were similar to those queried by Birdsell (1957) for human groups colonising uninhabited areas. Four values for carrying capacity were used. one, five, ten and fifteen people per square kilometer. A value of five people per square kilometer has been used as the carrying capacity for simulations on subsistence agriculture values coincide with low but the possibility remains they may have increased

DATA

A flow diagram and computer simulation of the discontinuous spread model were prepared (Fig.3; Appendix 1).

frequency of inter-settlement contact would have increased and with it the probability of friction would have grown. The level of stress would have increased until fission occurred when groups would have moved away, settled and formed the nuclei of new cultures. Each of these nuclei could have acted in turn as a centre for fission and further expansion.

In this model, as was the case for the continuous spread model, carrying capacity has been defined as psychological tolerance and the problem of limiting resources remains.

These

RESULTS

Simulation 1. Urewe → Lelesu → Kwaie → Silver Leaves
Simulation 2. Kwaie → Silver Leaves

Simulation 1. The discontinuous spread model produced a faster rate of expansion than the wave of advance model. Rates of less than one kilometer per year were achieved. These

Nkope has occasional fluting and beveling which has been used to tie it to the eastern stream, but as this feature was not common (Robinson, 1973; Table 2) and it would seem that Nkope probably belonged to a different tradition.

Phillipson (1975, 1977) has suggested that the expansion occurred as a linear continuum with Urewe as the earliest and Silver Leaves as the latest group. The linear continuum is based on the floruit analysis (Phillipson, 1975) and has marked differences from the reconstruction derived from pottery analysis which suggested that Urewe and Kwaie were related through a common ancestor (Soper, 1971b). The simulations were carried out over both possible reconstructions:

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Demand at IMF auction halts slide of bullion

Stew 2/8/79

(15b)

By Michael Chester,
Financial Editor

The slide of gold on world markets came to a pause and possible reversal today when the International Monetary Fund announced in Washington that the average price on sales from its big auction yesterday reached 289,59 dollars an ounce.

Bids that flowed in amounted to about three times the 444 000 ounces actually on offer and the IMF allotted bullion at prices ranging between 288,95 and 291,07 dollars.

Optimism about the chances of a reversal in the bullion price decline were based on the comparison of the 289,59 dollar average with the closing price in London of only 288,20 dollars.

Also to be considered is that the slide in prices — from a record peak of 307 dollars only a week ago — has been too steep and too fast and was poised

for a reversal anyway.

On the business time clock, Hong Kong should have been the first to react to the IMF result at its session this morning.

However, the key Far East market was closed down — along with the commodity and stock markets — as Hong Kong fretted about the approach of Typhoon Hope.

The next market on the swing of the time zones became Singapore, where prices today were first quoted at 290,75 dollars an ounce.

Still to be seen was how the pace-setting London and Zurich markets would analyse the IMF result later in the day.

However, dealers were already studying a new broad analysis of gold price trends by James Sinclair and Company in New York, which forecast a resumed climb in the

long term.

It remarked "Gold's value is a reflection of other events — a thermometer of international tensions. As such it registers in dollar terms the anxiety level of the world, which is stimulated economically, politically and socially."

"Attempts to depress the price of gold artificially are akin to destroying the thermometer to pronounce the fevered patient well."

The Sinclair analysis said the 200-dollar barrier breached late last year was irrelevant — so too the 300-dollar and possibly even a 400-dollar barrier.

"The disquieting truth," it said, "is that gold has an inverse relationship to the world's standard of living. The higher the price of gold, an innocent reflector, the lower the level of living standards."

Die hoofdoel van die Sentrum is om navorsing na die onderlinge groepsverhoudinge in Suid-Afrika te bevorder en te lei, in die besonder oor verhoudinge tussen rasse- en taalgemeenskappe.

2

Desember 1978

Hendrik W. van der Merwe
Direkteur

Ten slotte is dit met innige genoeë dat ek my verpligting teneor die ere-navorsingsbeambtes van die Sentrum vir hulle bydraes tot die navorsingsprogram, boekstaaf en teneor die personeel vir die wyse waarop hulle hulle pligte gedurende die jaar uitgevoer het.

Ek wil weereens die Carnegie Corporation en die Algemeen Diakonaal Bureau van die Gereformeerde Kerken van Nederland bedank vir hulle gulle ondersteuning van die konstruktiewe Program wat ons in staat gestel het om meer personeel aan te stel en om publikasies te ondersteun deur plaaslike skenkers, firmas en trusts noem, kort nadat die Program gestig is. Hulle hulp het dit moontlik gemaak om etlike publikasies gratis te versprei onder almal wat in die bevordering van 'n oop samelewing belang stel.

kampus, waar ons gedurende die laaste vyf jaar gehuisves was, ontgroei. Daarom is ek besonder dankbaar vir die ekstra ruimte wat ons nuwe kantoor in die Leslie Social Sciences Building op die Groote Schuur Campus aanbied.

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Star 3/3/79 (156)

IMF names 16 successful bidders

WASHINGTON — The International Monetary Fund today named the 16 successful bidders at its monthly gold auction.

The number of bidders participating in the auction was 20.

The successful bidders were J Aron and Co Inc of New York, Bank Leu Ltd of Zurich, Bank of

Nova Scotia or Toronto, Cie Luxembourgeoise de la Dresdner Bank AG, Dresdner Bank International of Luxembourg, Deutscha of Frankfurt AG, and Derby and Co Ltd of London.

Others were Deutsche Bank AG of Frankfurt, Dresdner Bank AG of Frankfurt, Dresdner

(Southeast Asia) Singapore, Johnson Matthey Bankers Ltd of London, Samuel Montagu and Co Ltd of London, North American Coin and Currency Ltd of Phoenix, Swiss Bank Corp of Panama, Swiss Bank Corp of Zurich, Swiss Credit Bank of Zurich and Union Bank of Zurich.

○ In Hong Kong the gold price eased to 556 20/28/30 dollars an ounce in early trading on long information from local operators.

Trading was fairly active with dealers reporting a fair amount of two-way business from the US and European operators — Reuter.

Mr H.W. Middelmann
Erm. M.T.L. Moletsane
Professor A.D. Muller
Sheik A. Najaar
Mr Victor Norton
Professor N.J.J. Olivier
Mr L. Phillips
Professor H.P. Pollak
Mr W.J. September
Mr Franklin Sonn
Mr P.M. Sonn
Regter J.H. Steyn
Mr R. Tobias
Professor R.E. van der Ross
Professor J.H. van Rooyen
Mev. S. Walters
Professor F.A.H. Wilson

shoff
der Horst

Jaarvergadering van die Maat-
like drie jaar 'n verteenwoordiger
tesing is in 1978 gehou en die
p A.W. Habelgaarn. Tertyl geen
le word nie, word hulle geraad-
wat die Sentrum se program raak.

RSING

het die navorsing van die
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e Verandering in Suid-Afrika
aar gelede aangepak. 'n Onder-
evolving van die Kaapse Skier-
ntal tydelike navorsings-

Friends (Quakers) en van die American Friends Service Committee deurgebring. Hy het 'n aantal konferensies in verskillende dele van die land bygewoon, baie vergaderings toegesprek en senior beamptes van die Carnegie Corporation, van Community Relations Services van die Departement van Justisie van die Amerikaanse regering, van die American Friends Service Committee en kollegas verbonde aan verskeie universiteite besoek.

Gedurende Augustus en September het die Direkteur Engeland, Nederland, Switserland, Swede, Israel en Zambie besoek. Hy het vooraanstaande joernaliste, Suid-Afrikaanse diplomaate, senior amptenare van die Suid-Afrika-Stigting en verskeie regerings betrokke by Suid-Afrikaanse belange ontmoet. Hy het besprekings gevoer met stigtings, trusts en opvoedkundige verenigings. As gevolg van sy besoek aan Nederland het hy 'n toelae vir die konstruktiewe Program ontvang van die Algemeen Diaconaal Bureau van die Gereformeerde Kerken in Holland.

Professor J.L. Boshoff, ere-Fellow van die konstruktiewe Program, het met 'n aantal instansies, wat universiteite in Natal en Transvaal insluit, en met verskeie handels- en industriële firmas in Natal, kontak opgebou.

(b) Konferensies

Gedurende 1978 het die Direkteur die volgende konferensies bygewoon:

Jaarlikse Konferensie, Nasionale Uitvoerende Komitee- en Raadsvergadering van die Suid-Afrikaanse Instituut vir Rasverhoudinge, Kaapstad (Januarie).

Suid-Afrikaanse Jaarlikse Vergadering van die Religious Society of Friends, Stutterheim (April).

Negende Wêreldkongres van Sosiologie, Uppsala, Swede. Verhandelings voorgelê in Werkgroep 6 en vergaderings bygewoon van die Raad van die Internasionale Sosio-logiese Vereniging as die amptelike afgevaardigde van Suid-Afrika (Augustus).

Recession will be worse than feared—IMF

1156
STAR
17/9/79

Own Correspondent

BRUSSELS — The world is heading for a more serious economic recession than expected and governments everywhere are running out of policy options for dealing with simultaneous unemployment and inflation.

This warning, cast in sombre terms in the annual report of the International Monetary Fund, came as the five leading Western Finance Ministers met in Paris to consider global economic prospects.

The Finance Ministers and central bank governors of the US, Britain, West Germany, France and Japan were particularly concerned over the prospect of an international interest-rate war as governments everywhere

seek to reduce inflation and protect their currencies from monetary upheavals.

The Paris meeting and the IMF report were concerned with the effect on the West's economy of this year's increases in Opec prices.

The IMF report takes a particularly gloomy view, foreseeing a much sharper fall in the world economy than had been expected as recently as the beginning of the year.

CONSENSUS

In its report the IMF adds its authority to the growing consensus that the United States has now entered a full recession, and goes on to hint that this is likely to spread through other industrial economies.

The report calculates that while world economic growth reached four percent last year it will fall to about three percent this year.

Thanks to the Opec price rises growth will be cut by between 0.5 and 0.75 percent and inflation will on average be 1.5 percent higher.

The IMF also calculates that the oil bill of the industrial countries will rise to 70 000m dollars this year while that of the developing countries will rise to about 50 000m dollars.

Despite the acknowledged danger of spreading world recession the IMF insists governments will have to give priority to reducing inflation and maintaining monetary stability.

US goes to IMF with bag of tricks

By JIM SRODES
Washington

INSTEAD of being defensive about the recent gold boom and the dollar's prospects, American delegates to the coming joint annual meeting of the World Bank and International Monetary Fund in Budapest next weekend will arrive with a number of surprises up their sleeves.

One of the ideas that US Treasury officials will test for reaction among the other 135-member nations will be to halt the 750 000 ounces of gold auctions it has used to prop up the dollar for the past two years.

Another mini-bombshell to be dropped will be the formal American arguments in favour of abandoning the number one item on the IMF meeting agenda — the adoption of the so-called substitution account wherein IMF members could dump unwanted dollars.

The idea of a substitution account to help stabilise world currency market swings actually predates the IMF itself by a number of years.

As with that other cornerstone of the IMF ideology — the special drawing rights which seek to expand world liquidity — nations have found it better to let free market forces swing relatively free.

Messy and as uncertain — as this week showed — as the markets can be, the IMF member nations have always found ways to avoid the antiseptic neatness of the fund's Keynesian accoutrements.

And the 1979 debate over the substitution account and gold should be no different,

if the Americans have their way.

The American point of view is interesting if only because it demonstrates afresh how monetary stability, like beauty, depends on the beholder's eye.

US Treasury Secretary William Miller, with some irony, lists "Volckerism" as one of the assets America enjoys at the moment and he intends, he says, to make the most of it.

Volckerism, refers to the aura of optimism which swept world exchange markets when Paul Volcker replaced Mr Miller as chairman of the Federal Reserve Board.

But Volckerism, the Americans now argue, means more than the benefit to the dollar which the gangling economist brought to his chairmanship of the Central Bank.

Among other things Mr Volcker has proved adept at leading the Fed governors farther along the tight mon-

ey path than anyone had a right to expect — certainly farther than Mr Miller could have or would have done.

Tuesday's 4 to 3 split vote within the Fed's policy-making body was crucial not only to boosting the Central Bank's discount rate from 10.5% to a record 11%. It in effect means the Fed is committed to squeezing inflationary monetary supply growth at home until some real, not imagined, effect occurs.

The dollar should benefit from all of this not only because of the anti-inflation implications but also because the narrowing of the interest rate gap should help as well.

The latest Fed squeezings almost guarantee a 14% prime rate within the month and another month of pressure should have America in a direct parity with Britain, if not higher. Fancy that.

With the fund committed to abandoning its gold sales next May, the Treasury no longer considers gold a necessary weapon to prop up the dollar.

In fact, they argue, the combination of Volckerism and the still ample holdings (roughly \$2-billion) of D-marks, Swiss francs and yen in the Treasury should be enough to weather the US dollar through October.

The bottom line argument becomes, "so why do we need a substitution account in the IMF?"

After all, no one is fooling anyone else by pretending that a substitution account would be used to hold anything but surplus dollars.

Stiff task ahead for IMF delegates

(156)
STAR

25/9/79

WASHINGTON — World economic and monetary leaders will spend next week in Belgrade groping for answers to some of the most intractable economic problems the world has faced in decades.

The gathering of Finance Ministers and central bank governors from around the globe for the annual meeting of the International Monetary Fund and World Bank takes place against a backdrop of ominous signs of strain in a world suffering from pervasive inflation, balance of payments problems, unemployment and poverty.

WORSE

None of these problems is new but they have been made much worse this year by the sharp increases in the price of

oil.

This increase has struck when the world has still not fully recovered from the recession brought about by the steep oil price rises of 1973/4.

Even though this year's increase is much smaller in real terms than then, the world does not have the same resilience to cope with it.

GLOOMY

In its annual report two weeks ago, the International Monetary Fund painted a gloomy picture of the world economic outlook.

It said non-oil producing countries would have to forego a portion of their gross national product as a direct result of the oil price increases,

while the balance of payments deficits of non-oil developing countries would rise.

No one believes the talks in Belgrade will result in any miracle cure prescriptions.

Indeed, it is much more likely the main theme of the talks will be an attempt to gauge the true severity of the problems, and in particular to examine future trends in the US, whose economy is crucial to all nations.

RECESSION

The US, which has still not solved its inflation problem, now seems to be in the middle of a recession.

Key US officials say the recession will be mild, and indeed may already be half over, but some

private and international economists are deeply concerned that the downturn may be much worse than the administration predicts.

If this turns out to be the case, developing countries may have to cope with even more severe payments problems as the US ability to absorb their exports declines.

STIMULATE

At the same time, the US might feel constrained to undertake stimulatory measures that would be perceived as aggravating inflation.

This would be very unwelcome to industrialised countries, particularly as they fear a consequence could be further problems for the dollar on foreign exchange markets. —
Reuter

Sombre backdrop for IMF meetings

156
RAM
26/9/79

BELGRADE. — A pair of grim annual reports by the International Monetary Fund and the World Bank set a sombre backdrop for the two organisations' annual joint board of governors meeting next week in Belgrade's Sava conference centre.

The World Bank report predicts that the gap between the rich and poor countries will remain wide and that it could take decades for developing nations to catch up with the standard of the industrialised world.

The IMF report paints a pessimistic picture of an overall world economy "plagued by high inflation, sluggish growth, under-utilisation of resources, periodic instability of foreign exchange markets, the difficult situation of non-oil (producing) developing countries and the spread of protectionist trade measures".

The world economy faces a period of severe strain.

These and other elements of the world economic scene will be the focus of attention of 6 000 people who will be in Belgrade for the conference.

Conference sources say there will be about 2 000 official delegates and guests, including the ministers of finance and heads

of national banks from many of the 138 IMF member countries.

In addition, many private banks are sending large delegations to be in on the action as much as possible and conduct bilateral business behind the scenes.

"If I may say so," says the Yugoslav Secretary for Foreign Trade, Mr Metod Rotar, "for a bank not to be present at such a meeting means it doesn't have a world name."

Conference sources say no decisions are expected to be taken at the conference from October 2 to 5. But world economic strategy is likely to be plotted, especially in a series of meetings preceeding the conference.

These include meetings of the Intergovernmental Group of 24 on international monetary affairs at the deputy level today and tomorrow and at ministerial level on Friday.

This group, including eight countries each from Africa, Asia and Latin America, will formulate a report to be considered by the ministers of finance of developing countries who will meet on Saturday.

The Third World financial leaders will discuss what strategy they should adopt in advising developed countries on development aid and how best to push for the "new world economic order" in which world wealth will be more evenly distributed.

A diplomatic source says: "They will undoubtedly ask for a greater amount of development aid from the developed countries. That has got to be the main point. But it's like a poker game — they won't show their cards in advance."

Finance ministers of industrial countries will meet on October 1, and so will the IMF board of governors interim committee.

"The interim committee meeting will be the most important of the whole show," says a conference source.

The committee is expected to discuss the executive director's report on the proposed substitution account — an IMF-administered account that would accept deposits of foreign exchange from fund members on a voluntary basis in exchange for an equivalent amount of fund special drawing rights, an artificial currency based on a basket of different currencies.

"The purpose of such an account would be to take a further step toward making the SDR the principal reserve asset

156 pm 28/9/79

BELGRADE IMF MEETING

Our man at the IMF

In spite of its sparkling performance on world markets, gold will continue to be treated in the corridors of power at this year's meetings in Belgrade of the International Monetary Fund and the World Bank as nothing more than a nuisance, an irritant which the South African delegates persist in raising each year

For the international bureaucrats who have been selling the IMF's holdings for the past three years, the metal remains, in the words of Lord Keynes, a "barbaric relic"

It may well be that Given the fact that there will never be a *voluntary* return to the Gold Standard, the bureaucrats and politicians are correct virtually to ignore gold as they seek answers to the problems of currency instability, stagnant economies, high inflation and unemployment, and, significantly, a growing disillusionment on the part of ordinary people with economists and their forecasts

Paul A Volcker, the physical and intellectual giant who will jointly lead the US delegation as chairman of the Federal Reserve Board, addressed himself to these issues in a recent New York lecture

Volcker, whose presence and intellect could dominate the gathering of finance ministers and central bank governors from 138 nations, believes that the "New Economics", which supposedly guided the West to prosperity in the Sixties and early Seventies, has been found wanting

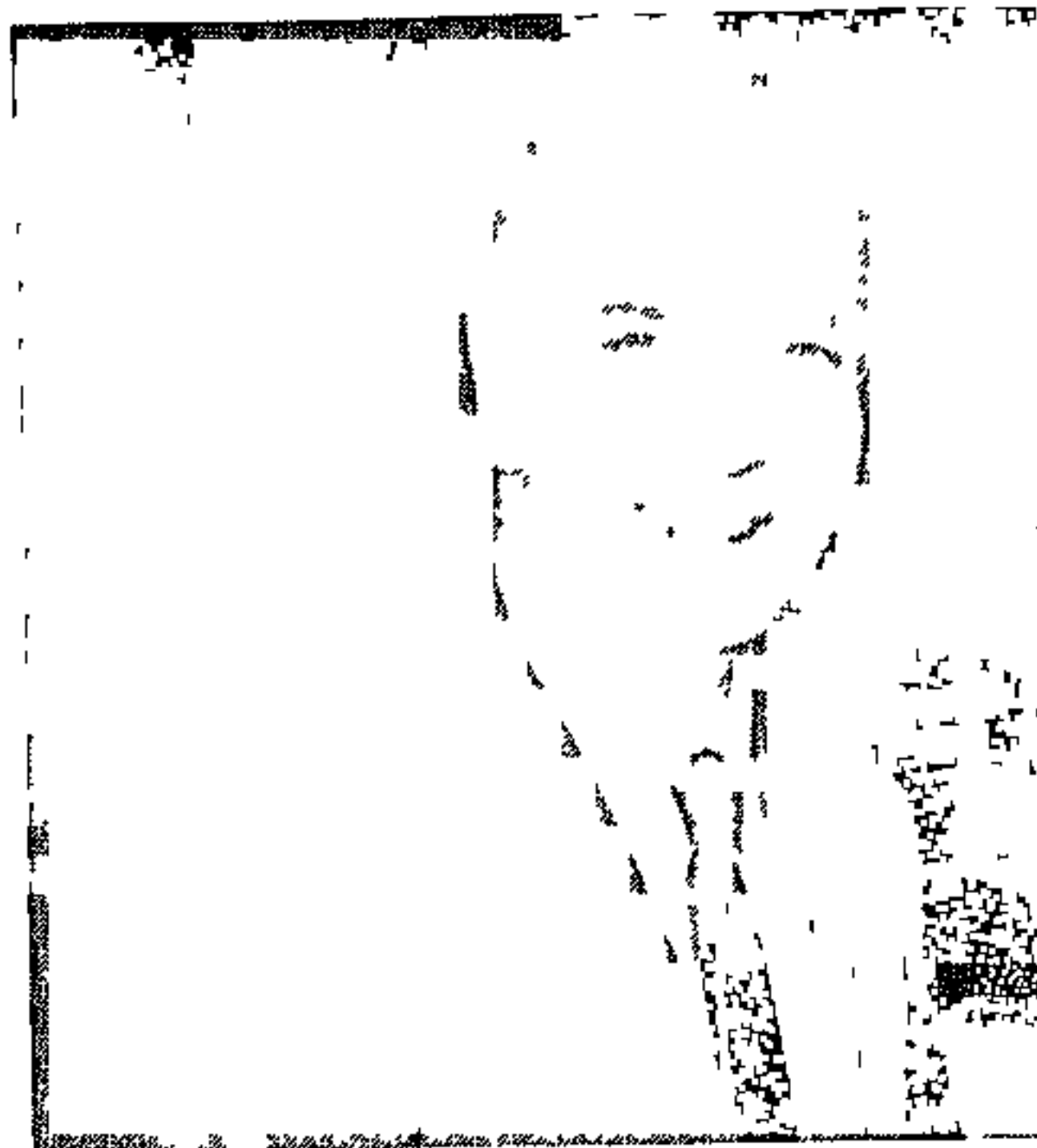
He writes "By the early Seventies, the persistence of inflationary pressures, even in the face of mild recession, began to flash some danger signals, the responses of the economy to the twisting of the dials of monetary and fiscal policy no longer seemed quite so predictable But it was not until the events of 1974 and 1975, when a recession sprung upon an unsuspecting

economic policy today is "Do we have the wit and the wisdom to restore an environment of price stability without impairing economic stability?"

It is in dealing with the great flood of dollars, which along with declining productivity (itself a symptom of a welfarism which actively discourages work) has fueled inflation, that the wit and the wisdom of the world's financial leadership will be tested to the hilt

Gold's drive upwards has been merely a symptom of the flight from the dollar Another, this week, has been revaluation of the German mark But the fear in the West is that, with 80% of the Free World's foreign reserves in the dollar, a sudden and severe cut in US trade deficits and money supply could plunge economies into acute recession

These considerations have led to yet another attempt to reform the international



Paul Volcker . . . the US giant who will dominate the IMF?

This is the twelfth year that Stephen Mulholland, the F.M.'s Editor, has attended the IMF conference Here is his curtain-raiser to next week's meeting in Belgrade

world with an intensity unmatched in the post-World War II period, that the lessons of the "New Economics" were seriously challenged

"Now, three years later," he continues, "the industrialised world is still faced with the combination of high levels of unemployment and inflation, with uncertainty and new debate about how the economy responds to changes in budget deficits and the money supply The earlier confidence in our ability to maintain the economy on a smooth path close to full employment has been undermined"

In Volcker's view, the crucial issue for

al monetary system Once again, an effort will be made to convert the IMF's Special Drawing Rights into a genuine *numeraire* by means of what is called the Substitution Account

In terms of the arrangement, countries holding more dollars than they care to would sell these to the IMF for interest-bearing SDR bonds, which will be transferable (at least among central banks) and could be used to settle trade balances between nations

"Thus," as New York's Citibank puts it, "the bonds would substitute for dollars as an international reserve asset The dollars

that the IMF would receive in payment for the SDR bonds are expected to be invested in long-term US Treasury securities"

There are profound implications for gold in the unlikely event that the new Substitution Account gets under way and actually works If this happens, it means that should a country wish to bale out of dollars, such a decision need have no effect on the currency markets providing the selling nation is happy to exchange dollars for SDR bonds

In other words, through the stroke of an international bureaucratic pen, the dollar is removed from the pressures and ravages of the market place

Of course, someone would have to assume the risk of the losses which the IMF itself might suffer should the dollar fall relative to other currencies

There is nothing new about the Substitution Account concept Keynes proposed something like it at Bretton Woods But, as the Federal Reserve points out, "the fundamental problems involved in reforming the system could not be avoided" These fundamental problems remain and of them, the Fed adds, "perhaps the most important" is the need for nations to co-ordinate their economic policies (what is known as "convergence") so as to bring greater harmony and reduced uncertainty to world economic affairs

It would be in the interests of the West, SA included, if such a plan could be made to work A stable environment would lead to increased trade and a rise in prosperity

However the prospects, like those which will face the world's financial leaders in Belgrade in the week ahead, are bleak

Another subject of extreme importance to SA, and which will be aired in Belgrade, is the burgeoning interest rate war, yet another symptom of the inability of nations to pursue common goals

Volcker has made it clear that, in his view, a sound economy must have a "positive" interest rate, that is one in excess of the rate of inflation

Added to Volcker's determination is the fact that other nations are raising their rates so as to attract foreign currency inflows and jack up their currencies This beggar-thy-neighbour approach can only serve to further inhibit new investment and add to the drag on Western economies

It also means that SA, where low rates are an essential plank of present policy, will have to look warily to the short-term effects of switching, as importers finance their purchases locally and exporters delay the remittance of earnings

SA is financially sound ... on the grin index

BELGRADE — It was perhaps only a momentary weakness — but it certainly and publicly happened Dr T W (Bob) de Jongh, the Governor of the Reserve Bank, was seen to smile in the presence, if not the witness, of thousands at the opening jamboree of the annual meeting of the International Monetary Fund in Belgrade.

Well, if it was not a smile, it was at least a flicker of a grin, and on the De Jongh scale of facial economic indicators, that means that South Africa is looking at the world financial outlook with a great deal more cheer and comfort than most IMF members.

That is, of course, hardly surprising. All the factors that are combining to surround this IMF meeting with a cloak of gloom and uncertainty — the seemingly intractable world inflation problem, the dollar crisis, foreign exchange upheavals, sluggish growth and, most important, the oil threat — have sent gold soaring to \$400.

It is not all gain for South Africa, however. The IMF is predicting that the real growth rate of the non-communist industrial world will slip from a modest enough 3% this year to 2% or less in 1980.

This must have a restricting effect on growth and employment prospects in South Africa in spite of the boom in gold,

HOWARD PREECE Financial Editor of the Rand Daily Mail, reports from Belgrade on the annual meetings of the International Monetary Fund and the World Bank affiliates.

platinum and other commodities. Oil also remains a constant anxiety even if the danger to supplies is at present more potential than actual. The oil cost to South Africa — perhaps double the Opec official levels ranging from \$18 to \$23.50 a barrel — is a burden, but can easily be borne with gold anywhere near present levels. Still the risk is there that the tougher the world oil position becomes, the more vulnerable South Africa could become.

These qualifications are among the reasons for the continuing stubborn reluctance of private fixed investment to show any real sustained signs of take-off.

But the fact remains that Dr De Jongh was seen to grin in Belgrade. Friends and foes have variously assessed the good doctor but "stony faced" is one neutral and purely descriptive term that could surely be generally accepted.

South Africa must clearly have solid grounds for economic optimism, at least in the immediate future. Pleasure, however, can be a relative mat-

ter. Dr De Jongh and his political chief, Senator Owen Horwood, the Minister of Finance, are not so foolish as to think South Africa has no financial problems, nevermind the awesome political ones.

But the short-term economic problems — notably the 13% inflation rate are not as daunting as those facing most other IMF countries. The majority of IMF members are non-oil producing developing countries. Their outlook is grim. The IMF development committee concluded yesterday "The non-oil producing primary producers are likely to experience slowdown in the growth of demand for their exports and adverse shifts in their terms of trade."

The committee expressed "serious concern that in the context of high rates of inflation, this would lead to relatively slow takes of economic growth, a further substantial deterioration in their aggregate current account deficit and an increase in the number of developing countries encountering debt servicing problems."

These countries are demand-

ing greater help from the industrial group (they would actually do more for themselves if they could persuade Opec to rein in oil price hikes), but the industrial countries mostly have troubles of their own.

President Carter faces the dilemma that while it is in the long-term interest of both the US and the rest of the world that the US pursue a vigorous anti-inflation policy, it might not be in Mr Carter's immediate political interest. Oil prices and supplies present immense difficulties to virtually every other Western country. Nor can oil alone solve Britain's difficulties as Mrs Thatcher knows only too well. For the moment, South Africa is one of the few non oil-producers with no balance of payment problem and some hope of accelerating rather than decelerating economic growth.

There are plenty in Belgrade, however, who say we have nothing to grin about in the long-term. Perhaps, but we certainly have a great deal to be thankful for, economically.

(assume there are no other items causing timing differences)

3. How will the answer to 2. be affected by the existence of an extraordinary gain on disposal of a division of the company, amounting to R70 000, all of which was taxable, in the 19.7 financial year?
4. How does the answer to 3. change if the R70 000 is now a deductible loss, which can be set off against the taxable income from other sources of R50 000? Draw up the income statement assuming the deferral method is used.
5. Further to Note 4, assume now that the company has a set profit before depreciation of R60 000 in 19.8.

Draw up the income statement for the 19.8 financial year under a) liability method

b) deferral method

Assume the tax rate remains 42%

156 pm 5/10/79

The silence is golden

Everybody at the IMF is talking about gold — except the IMF. This is the view of Chamber of Mines economist Tom Main, who was speaking in Belgrade at the annual meetings of the International Monetary Fund and the World Bank.

Main told the FM that while gold dominated discussions among private bankers — particularly the Swiss and Germans but with considerable American interest — the IMF bureaucrats and politicians representing member states assiduously avoided the subject.

In the face of gold's incredible surge in dollar price terms — this week it was given further impetus by bears who were covering short sales at about \$390 to \$400 an ounce — the international financial community remains adamant in its determination to phase the metal out of the monetary system totally.

In an address delivered in Los Angeles and distributed in Belgrade, George H. Willis, a US Treasury monetary expert, repeatedly drew attention to gold's limitations as a reserve asset and to the movement away from the metal by governments and international organisations.

He stressed the marginal nature of the gold market and the various systems of valuation used by different central banks and governments.

In fact, Italy's Finance Minister Filippo Maria Pandolfi probably reflected official thinking when he responded to a Press conference question on gold with the remark that "this barbarous rise in the price of gold is merely one aspect of a more general problem."

Willis commented "The use of gold in international transactions among monetary authorities requires agreement of the parties to the transaction on a valuation for gold, or at least an approximate valuation. Fixing such a value for substantial amounts of gold has presented problems, since gold could probably be sold in the

private market only in moderate quantities without a strong reaction in that volatile market."

He added that gold fluctuates like other metal "for which supply is limited and inelastic."

Willis conveniently overlooked the hard economic fact that prices are set at the margin. Let him try to unload a few hundred millions of dollars in a hurry or dump a massive block of IBM shares and see what happens to the price.

He seemed, however, to have trouble explaining how the role of gold was declining when the new European currency unit

system," he said.

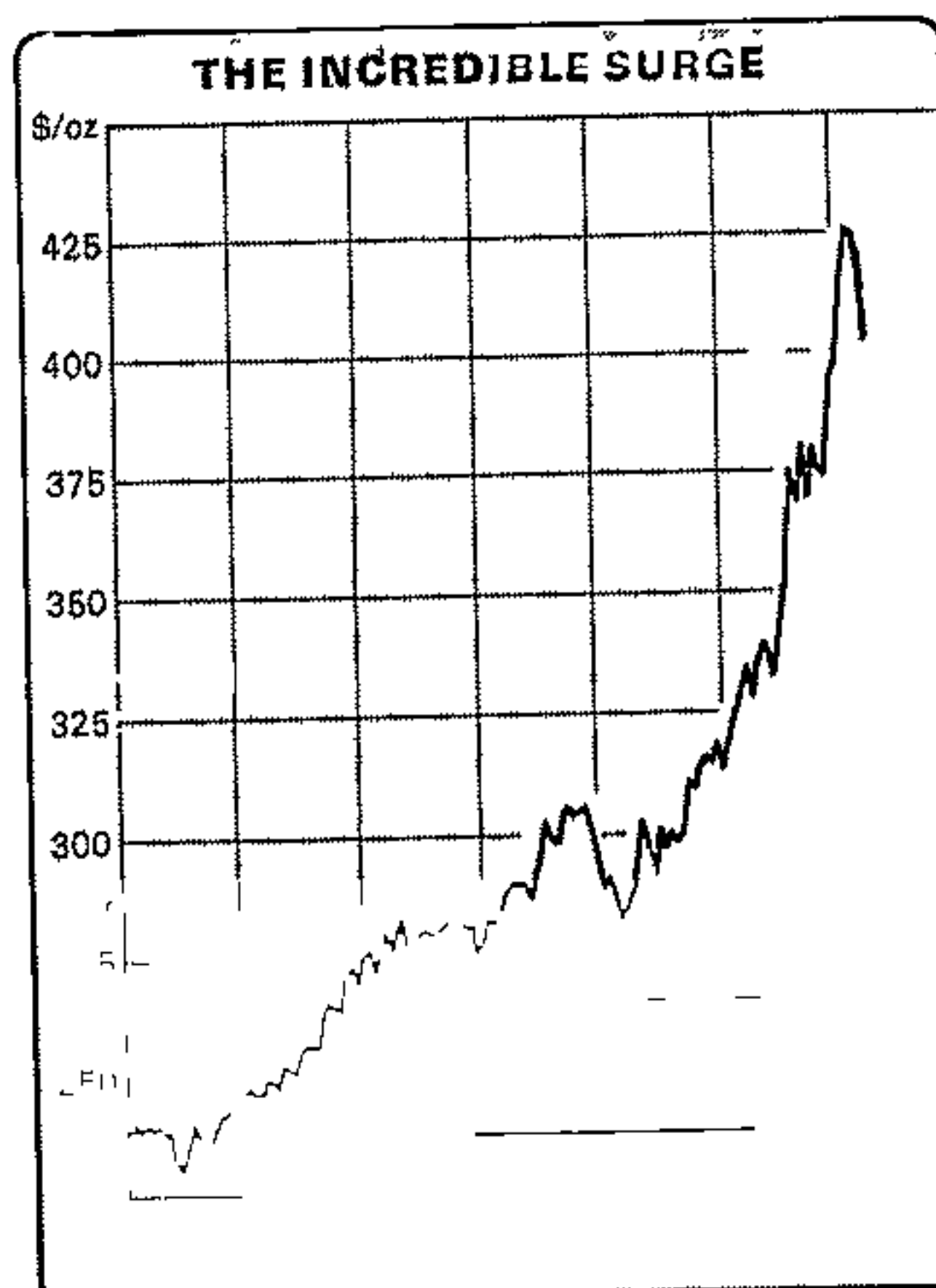
He then added a most puzzling statement: "The EMS arrangements may reflect some recognition of past difficulties in using gold for official purposes."

Willis pointed out that since 1971 governments had bought only five million ounces of gold and official gold holdings had remained static.

What can't be avoided is that, by any reasonable method of pricing, the roughly 1 000 million ounces in official reserve assets is today not only dominant but positively the last asset nations want to sell.

In the SA camp at Belgrade there was quiet confidence but a realistic appreciation that a sharp reaction in the bullion markets is inevitable.

And one veteran member of the SA delegation expressed the view that the Americans would eventually act — when gold was around \$900 — to retire the vast dollar overhang.



"practical distinction between utilities and question of community whatever group? But good thing the medical politicians but the econ

Programme budgeting out from the basis of administrative criteria, and the

THE WEST'S RESERVE ASSETS

Total reserves (excluding gold)				Gold	
Year	Amount SDR billions	Year	Quantity ounces	Value \$	
1971	18.2	1971	1 026m	41.2	
1972	110.9	1972	1 017m	60.8	
1973	116.8	1973	1 017m	94.7	
1974	144.0	1974	1 016m	154.8	
1975	158.3	1975	1 015m	121.6	
1976	186.2	1976	1 010m	117.1	
1977	226.3	1977	1 012m	137.4	
1978	243.8	1978	1 019m	176.7	
1979 (May)	257.1	1979 (May)	931m	201.4	

Note: May 1979 gold quantity fall reflects transfer to EMS by Euro participants.
Current value of official gold holdings dollars (not SDR) 450 billion which is well over 50% of world reserve assets. Gold valued at London prices.

the cost of raising the funds themselves native methods of raising them: international raising tax project, but may a budget.

Where the methods sources in different by means of Linear usually be present

2. CHOICE OF PROC

So far, we have discussed objective. But what gives themselves to be given to part more to child welfare

Overall criteria are way that they can give problem is not only to relate the various There are various measures expenditure be accounted

2.1 Programme Budgeting

Programme budgeting, also known as budgeting by objectives, involves the presentation of expenditure data according to the objectives to which it is directed. Thus, projects to combat TB would be grouped together, geriatric problems, sanitation programmes, etc.

This is necessary:

- to know the cost of pursuing each objective;
- to group together activities with the same objectives which can be compared by cost-effectiveness analysis;

WORLD ECONOMY

Cheerless Belgrade

Opening his annual address to financial leaders from 138 nations gathered in Belgrade, Jacques de Larosière did not mince his words. The IMF's managing director bluntly stated an unpleasant fact "The present world economic situation is gloomy."

De Larosière struck a necessary note of caution and warning. There can be no doubt that the world faces very real prospects of an international recession of sharp and painful dimensions.

What is disturbing is that all that happened at Belgrade points towards a repeat of the very policies which have led the international community to its present unhealthy condition in which high rates of inflation persist, in defiance of Keynesian logic, along with low rates of growth and high levels of unemployment.

While "gradualism" — the phasing out over an extended period — as a means to fight inflation, which is seen as the enemy of growth and employment has been discredited, there was lacking at Belgrade a sense of the urgency with which nations should now go about applying the disciplines needed if they are to avoid further inflation and its consequent destabilisation.

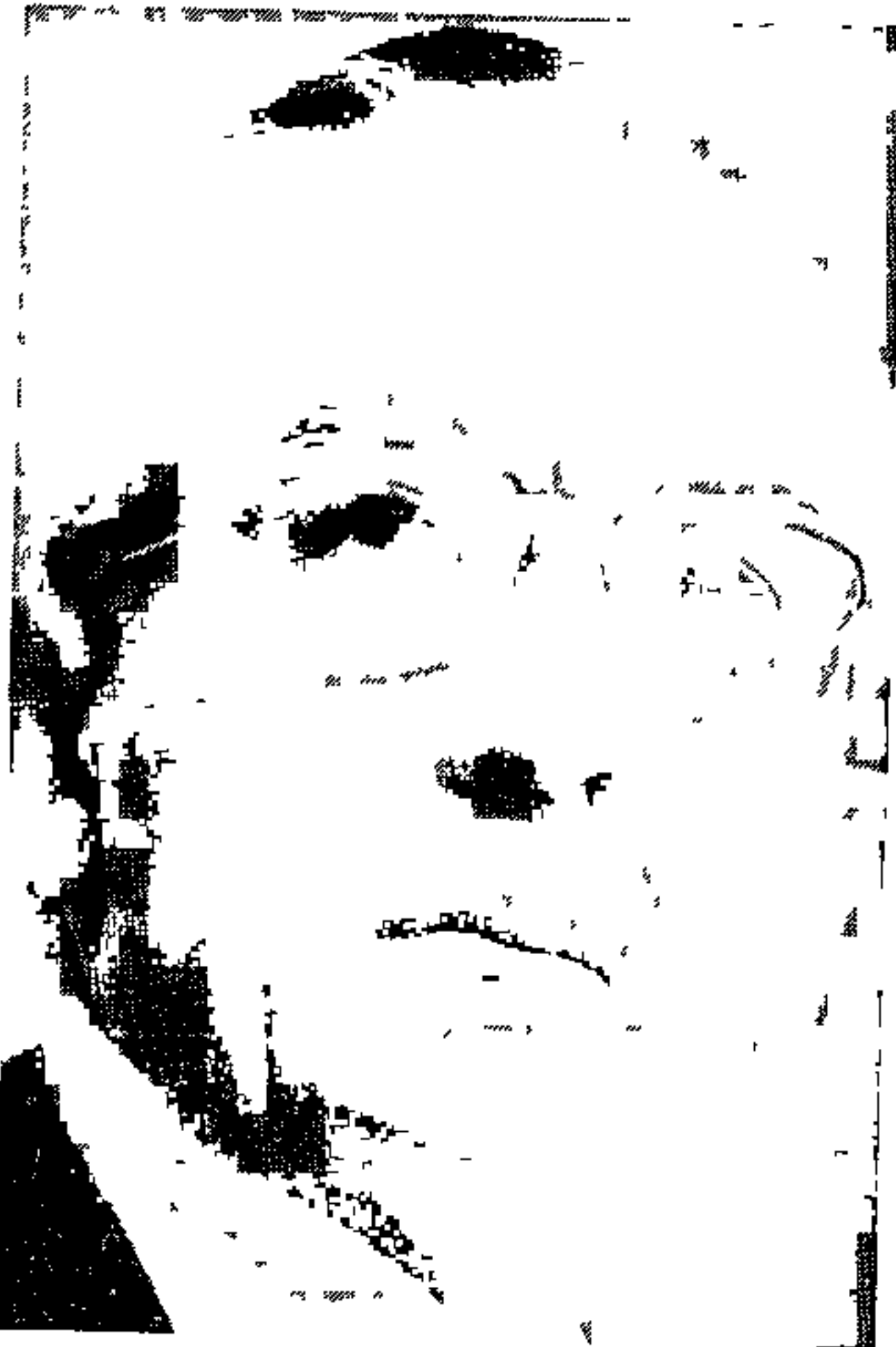
Arthur Burns, former chairman of the US Federal Reserve, expressed such fears in the annual Per Jacobsson Lecture, which is traditionally delivered the day before the meetings open. Burns put forward a four-part programme for tackling the current crisis, but warned "I am not even sure that many of the central bankers of the world, having by now become inured to gradualism, would be willing to risk the painful economic adjustments that I fear are ultimately unavoidable."

It is precisely because the world will not voluntarily endure these "painful economic adjustments" and, in fact, by generating more and more liquidity through money creation, is doing exactly the opposite of what it should, that gold and other stores of value are rocketing up in dollar terms.

The Burns programme is worth recording. His four steps start with a suggestion

that government deficit spending be restricted by law. This is followed by a call for "a comprehensive plan for dismantling regulations that have been impeding the competitive process... running up costs and prices unnecessarily."

A "binding endorsement of restrictive monetary policies until the rate of inflation has become substantially lower" is the third leg of his formula. Finally, he calls for a five-year plan to cut company taxes down to the bone to improve productivity and "thereby exert downward pres-



IMF's De Larosière... the situation is gloomy

sure on prices." Burns says such tax cuts would ease the difficult adjustments forced on many firms and workers by the first three elements in his plan.

De Larosière himself conceded that gradualism had not worked and blamed this on "unduly high rates of monetary expansion."

But, even as he spoke these brave words calling, in effect for some Burns or

Friedmanite medicine to be applied in a process that would be painful and unpopular but ultimately effective, he fell in with demands for bigger handouts on easier terms to the struggling Third World. And he remains boss of an organisation that regularly creates billions of units of account in the shape of Special Drawing Rights, which add to world liquidity but have no relation to such mundane concepts as increased productivity.

Opening the meeting, Yugoslavia's President Tito reminded delegates that at the so-called Non-aligned meeting in Havana recently, attention was focused on the "issue of inequitable international economic relations."

Tito joined the chorus of Third World demands for vastly increased aid on ever softer terms. There was prevalent at Belgrade among Third World delegates the old spirit that the West is rich because the East is poor, that the North prospers because the South suffers.

Egged on by learned guilt-mongers of the West, leaders like Tito blame the Western system for, in his words, keeping "enormous human and natural potentials on the margins of economic trends (imposing) difficulties on the world economy in general."

Repeated calls were made for a New International Economic Order, a euphemism for the transfer of massive resources developed and produced by Western energy, ingenuity and technology to poor nations which, usually because they prefer ineffective economic systems, have not themselves ever experienced industrial lift-off.

The non-oil developing countries, faced with total BOP deficits of about \$100 billion in the years 1979 and 1980, called on the West to "compensate for any deflationary effects that could arise" in attempts to stem inflation.

Third World problems don't end there. Their debt service charges are in many cases rising faster than the rate of increase in the debt itself. They are, in effect, drowning in interest and unless they are bailed out by the West they will

Chicago 6/10/79

If I burst through the thin screen of official indifference to this 'symptom' of more serious economic conditions, I shall find Treasury Secretary Mr. William Miller -- and refused to go away

Treasury Secretary Mr. William Miller -- and refused to go away

While it was excluded from the main party by virtually all speakers in the great assembly hall of the Sava Centre — apart from South Africa's Finance Minister, Senator Owen Horwood — the uninvited guest noisily prowled the corridors and butted into briefing rooms

With the price battering up to 448 dollars an ounce, it was for once not only South African reporters who were asking questions about gold at Press conferences

Of course the rampage in the bullion market was a symptom. And a symptom of precisely the kind of fears generated by doom and gloom pictures painted by finance ministers at the IMF's most pessimistic session since the oil price explosion of 1973.

There was a weary feeling of 'here we go again'—into another period of economic stagnation, if not actual decline worldwide, and rising inflation.

Mr de Larosiere said, 'The world economy may be entering a very difficult phase for the next few years.'

Mr de Larosiere said, 'The world economy may be entering a very difficult phase for the next few years.'

He called on governments to summon up the political courage to inflict a new round of economic and social hardship on their electorates.

Mr Miller was scarcely more cheerful.

America was prepared to take the 'bitter medicine' needed to flush inflation out of the system but 'this would take a number of years to deal with,' he told a Press briefing.

He tried to inject some hope. There would still be positive growth in the main industrial economies as a group and 'we are

He tried to inject some hope. There would still be positive growth in the main industrial economies as a group and 'we are

By JOHN CAVILL

So did Sir Geoffrey Howe, Britain's Chancellor of the Exchequer. He said:

...said the prospect was as disappointing, the difficulties great but there were still reserves of strength and resilience in the world economy.

These crumbs of comfort were clearly not enough. Nor was the 'device' (according to the IMF) or 'gimmick' according to the Wall Street Journal) of the substitution account, designed to mop up unwanted dollars without disrupting exchange rates.

United States Congressmen at the IMF said there "was 'no way' they could

see foreign holders of dollars, being protected from the ravages of American inflation at a cost to their taxpayers -- while the same taxpayers suffered falls in the buying power of their own dollars.

And just to chill the air a little more, the Saudi Arabian finance minister issued a warning about his country's policy of producing extra oil to help the world economy.

Saudi Arabia wanted to carry on, he said, but we are finding it increasingly difficult to continue our policies under prevailing imbalances in exchange markets coupled with high levels of inflation in industrial countries.

STRONG PLEA

MR Jacques de Larosière, IMF director, phase managing difficult

Conspiracy of silence over gold

156
S/Times
7/10/79



HOWARD PREECE
reports from Belgrade

A \$40 000-million gold battle, at present prices, is looming in the International Monetary Fund.

At stake is the future of 100-million ounces of IMF gold
The issue will not be resolved until next year and both the uncertainty and the eventual outcome are bound to have some influence on the already highly volatile gold market

IMF ignores vital issue at Belgrade

The gold question generally was so sensitive at this year's annual meeting of the IMF in Belgrade this week that there was virtually a deliberate conspiracy of silence by IMF leaders and by most of the world's leading finance ministers

This absurd posture, when gold has rarely been closer to the centre drama of world finances since the IMF was founded, did little to enhance the IMF's credibility

That view was held by many observers with no particular emotional, intellectual or national interest in gold but who simply felt it nonsense to try and duck so fundamental a matter

The ducking was a pointer, however, to the conflicts that face the IMF over its own gold holding

At the annual meeting in 1975, a proposal to auction 25-million ounces of IMF gold and to restore a further 25-million ounces to member countries, in

proportion to their subscription quotas, was agreed

The auction programme began in June 1976 and will be completed in May next year, by which time the restoration programme will also have been carried through

So what happens then?
There are various proposals being floated

The developing countries have, through an IMF trust fund, been receiving the profits of the 25-million ounces auction programme

By the time it is over some \$3 000-million (R2 500-million) will have been handed out to them

The developing countries face an oil-led combined current account balance of payments deficit of \$43 000-million this year against \$21 000 million in 1977

So they are certainly not going to be happy to see 100-million ounces of IMF gold left frozen

Their demand is that the IMF continues to make gold sales after the present programme is finished and uses

the profits to subsidise interest rates on loans to them

This is opposed, however, by some of the developed countries who see it as a possible weakening of world financial discipline

There is also a major technical problem. The US can effectively veto any IMF gold plan it does not like (it might have to accept some horse trading in practice) and the US Congress must now approve any move to use IMF gold for development aid

Apart from the Congress issue, the US government might well favour more, and possibly larger, IMF sales to try and push the price down

Whether such sales would necessarily achieve this, other things being equal, is open to doubt

Mr Tom Main, chief economist of the Chamber of Mines, suggests that the wider gold is distributed the greater its underlying strength becomes

The way the markets have absorbed IMF and US Treasury sales in the past year seems to add weight to this.

There is also the fact that

EEC countries now have the European monetary system with the gold-backed European currency unit, ECU

They can also veto IMF gold sales policy

The EEC countries are hardly likely to accept any US plan aimed at severely depressing gold, albeit that such a plan would seem doomed anyway.

Mr Gaston Geens, the Belgian Minister of Finance, has suggested that some of the profit of future IMF gold sales be used to boost the interest rate on Special Drawing Rights and thus help the proposed stabilisation account get off the ground

But that idea, as with using gold as collateral for IMF loans, would give gold a more formal monetary link than the US wants

There will clearly be much politics, argument and wider compromise on general world money issues before the IMF gold issue is resolved.

The key forum will probably be the meeting of the IMF's powerful interim committee in Hamburg in April

5. Further to profit before depreciation or

Draw up the income statement for the 19.8 financial year under a) liability method

b) deferral method

Assume the tax rate remains 42%

After Belgrade... what is outlook for world economies?

IMF reaches unanimity ~~153~~ 156 S/Times 14/10/79 over inflation

G William Miller
for strong
alliance powers
all

THE WORLD'S Finance Ministers and central bankers are agreed — to a surprisingly broad extent — about the international economic outlook and on the proper response.

What has clearly emerged has been what M Jacques de Larosiere, the International Monetary Fund's director, described as a deeply impressive degree of unanimity on the problems of inflation.

The talks have highlighted a marked shift in attitudes over the past few years. Long gone are the days of "going for growth", as in South Africa. And this year's meeting has also seen the demise of the interim phase of "convoys and locomotives" of world economic growth, with a corresponding list of detailed policy recommendations for individual countries.

The aspirations have been modest over the past few years, though no less difficult

to achieve. They have focused on the need to reduce inflation and expectations which fuel inflation, if there is to be any hope of sustained growth. There is also agreement on the importance of a tight monetary policy to achieve this objective, though some complaints have been made about high interest rates, such as the record level of 13.5% in the US. It is especially significant that this view has been put forward not only by industrialised, but also by developing countries.

The speeches at the IMF meeting in Belgrade of some of the poorer nations recognised that there are limits to what the industrialised world can do until their inflationary problems have been eased.

To the surprise of some participants, the developing countries were less vocal and militant than might have been expected, in view of the serious deterioration in their economic prospects.

There was a note almost of fatalism about the commun-

By PETER RIDDELL

que put out by these countries' Group of 77. Their frustrations were expressed mainly in an attempt — effectively deferred for a year — to gain observer status with the Palestine Liberation Organisation.

The problems of the "non-oil" developing countries — the sharp rise in their aggregate current account deficit and their average inflation rate of 30% — took up much time, but with no real progress.

The World Bank, in particular, faces constraints on its ability to sustain increased lending. This is principally because the US Congress has sought to impose restrictions on any support for the International Development Association, the bank's soft-loan arm.

Yet it is not all gloom. Although the US is in, or heading for, a recession, most countries represented agreed

that the overall economic recession should be less severe, and that inflation rates should be lower than after the last sharp rise in oil prices in the mid-seventies.

There is also now a better balance in the distribution of current account deficits and surpluses between the major countries.

Several speakers said this improved balance should help to calm the exchange markets. But such stability has been a long way off in the past fortnight.

The confirmed weakness of the dollar and the turbulence in the bullion markets, where gold briefly reached a record level, lent a distinct air of unreality to the occasion. It also explains why many bankers, notably Paul Volcker, chairman of the US Federal Reserve, left for home early behind a smokescreen of rumours and suggestions that further measures to support the US currency might be on the way.

The role of the IMF in all this remains peripheral. Several speakers urged a greater use of the fund's resources by developing countries and closer co-ordination with the commercial banks.

In the most stimulating speech of the meeting, G William Miller, US Treasury Secretary, called for stronger surveillance powers for the IMF. He said the IMF should be allowed to scrutinise the economic and exchange rate policies of any country running either a large payments deficit or a large surplus.

But this is far from universally accepted and the IMF is a long way from being a world bank manager.

There have also been signs that the industrialised countries are lukewarm about the proposed substitution account, into which excess dollars would be deposited in return for interest-bearing claims denominated in special drawing rights — the fund's own currency.

deductible loss, which can be set off against the taxable income from other sources of R50 000? Draw up the income statement assuming the deferral method is used.

rural areas or cause of deaths' according to the Bantu Reference Bureau (Personal Communication). At least 50 000 deaths among Africans were not registered. These occur mainly in the rural areas. It is estimated that about 10% of the deaths in the main urban districts are not registered Africans.

METHODS

The following indices were calculated:

1. Crude Mortality Rates.
2. Standardised Mortality Rates. Two standard populations were used: England and Wales representing a developed population and Mexico 1949 for a developing one.
3. Age and Cause Specific Death Rates. Calculated mainly in five year groups for the seventeen major divisions of the eighth revision of International Classification of Diseases (ICD).
4. Proportions of Causes of Death.
5. Infant Mortality Rates.
6. Expectation of Life. Calculated for 1970, the last census year.
7. Competing Mortality Risks.⁸ This is the mortality experience of a population under the hypothetical conditions which would exist if a particular cause of death were eliminated or the relative effect of that cause were increased.

The calculation of rates involves a known specific population. No official estimates are available for whites, Asians or inter-censal years. For whites, Asians and Africans, the population has been projected forward using the actual 1970 and taking into account the actual migration group. Allowance was made for migration.

For Africans, a different procedure was adopted as a population figure for only part of the country was required. The 1970 age distribution¹⁰ by magisterial district was used, the numbers being adjusted by the 1974 gross population estimates by economic region.¹¹

The plan is not directly related to the problem of re-cycling of petrodollars held by oil-producing nations but will be useful in persuading them to support the substitution account designed to stabilise the world currency situation, they said. — Reuter.

The plan would also enable the IMF to provide higher interest rates for the certificates based on special drawing rights. The IMF proposes to issue to absorb surplus dollars held by member nations, the sources said.

The sources said the IMF should have gold holdings of up to 105 million ounces at the end of May.

INTEREST

They said there was no indication yet of how large the sales should be or how much of the proceeds should be used for bolstering the substitution account as opposed to the accounts for poorest nations.

among others.

tion of the US dollar, the sources said.

The sources said the idea of continuing IMF gold sales after May when the present four-year gold sales programme in support of funding for the poorest nations expires was floated last year at the IMF annual meeting in Belgrade by Belgian officials.

The Japanese sources said that while it received little attention at the time, it is now supported by the US and Japan,

BUSINESS

IMF to meet on gold sales plan

Star 30/1/80

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TOKYO — The interim committee of the International Monetary Fund (IMF) will discuss a plan to sell some of its gold holdings to boost the proposed substitution account at a meeting to be held in Hamburg on April 24, official Japanese sources said.

The plan provides for using profit from sales of part of the IMF gold holdings to cover exchange losses that the substitution account may suffer from any depreciation of the US dollar, the sources said.

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The sources said the idea of continuing IMF gold sales after May when the present four-year gold sales programme in support of funding for the poorest nations expires was floated last year at the IMF annual meeting in Belgrade by Belgian officials.

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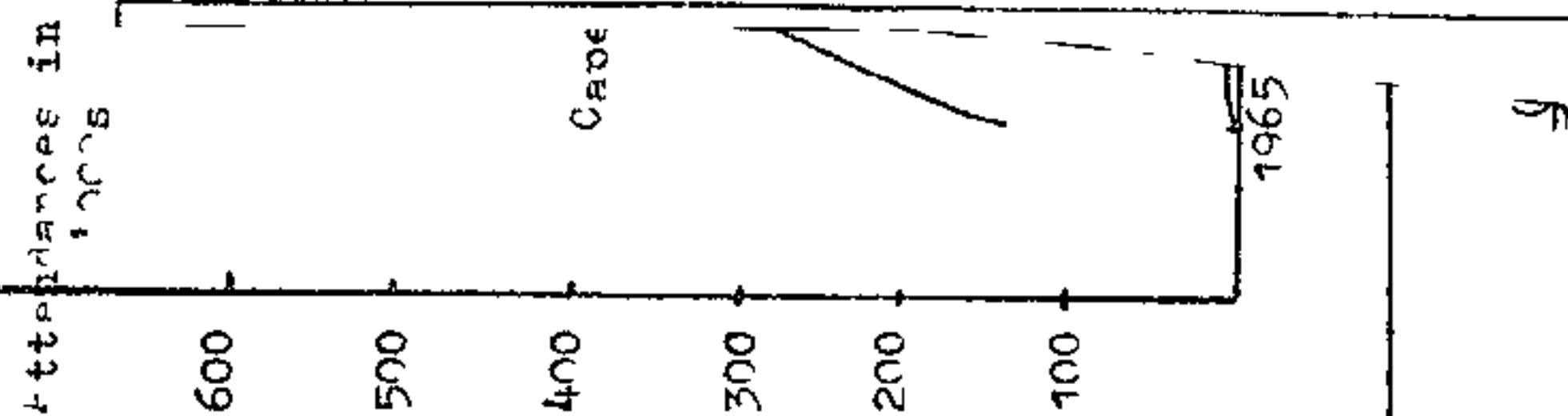
For Africans, a different procedure was adopted as a population figure for only part of the country was required. The 1970 age distribution¹⁰ by magisterial district was used, the numbers being adjusted by the 1974 gross population estimates by economic region.¹¹

These show considerable variation. (See also ref.15). A mean figure and the range are given in Fig. 2. These de facto figures should be interpreted with caution as sick infants are often brought to the cities from rural areas. An indication of the situation in the rural areas is given by a sample survey carried out in Cape Town and Transkei among Xhosa-speaking Africans.¹² An increase in infant mortality was observed with decreasing urbanisation, the figure for the completely rural areas being of the same magnitude as those parts of the world devoid of medical services. Fig. 4 summarises the age specific mortality rates of

At Groote Schuur, general outpatient attendances have declined since 1973. The number of physiotherapy treatments has also declined - either due to changes in the counting of patients (most likely) or suggesting that the Day Hospitals have taken responsibility for much post-operative physiotherapy treatments. The number of diabetic patients also appears to have declined. At Red Cross, the total number of attendances has declined (although the short time series limits the usefulness of the data here) with special clinics remaining fairly constant and general outpatient attendances declining.

The Groote Schuur Hospital staff report reduced congestion resulting from the existence of the Day Hospitals¹ but the data is such that strong inferences cannot be drawn.

The attendances at Day Hospitals are shown in Graph 3. It appears that it took nearly 2 years to educate the population about the new role of the Day Hospitals. Since 1971, the number of attendances has increased rapidly (also as the number of Day Hospitals has increased) particularly among the 'Coloureds' - 75% of the patients now seen at the Day Hos-



IMF gold sales likely to continue¹⁵⁶

By NEIL BEHRMANN

LONDON — The International Monetary Fund's executive board is expected to recommend that IMF monthly gold sales continue. The recommendation will be made at the interim committee meeting of finance ministers and central bank governors in Hamburg on April 25.

The gold sales are due to end in May.

From June 1976 to May 1980, the IMF will have sold 25-million ounces of gold. The proceeds have been allocated to Third World nations.

After the disposal of this gold the IMF will be left with 105-million ounces, which at current prices are worth about \$70 000-million.

According to Washington reports IMF officials are studying a plan to use the proceeds of future gold auctions to support the IMF substitution account.

The substitution account aims at countering diversification out of the dollar and the consequent chaos in the foreign exchange market.

The plan is that the 135 members of the IMF could swap dollars for a new reserve asset, which would be allocated from the substitution account. This asset would be SDR bonds, which would be linked to the SDR — in other words, a basket of currencies.

The substitution account, in its initial phase, could involve \$20 000-million.

According to the reports the IMF may continue to sell gold. Under the plan, the profits from the gold sales would be allocated to the substitution account and would guarantee any exchange losses in the substitution account.

The dollar's weighting in the SDR is 40%. So if the dollar depreciates by 10%, then the SDR bond would fall by 4%.

The proceeds of the gold auc-

tions would offset the loss to the holder and thus guarantee him against any risk.

This is only a preliminary plan. Bullion dealers say that the bond itself should have gold backing or at least part of its weighting linked to gold. In any event, following the huge increase in oil prices, Third World countries are desperate for aid so these nations could do with the proceeds from further gold auctions.

However, from the reports and from my discussions with bullion dealers, it seems likely that the IMF will continue to auction gold.

Swiss bullion dealers say that gold is trading in a narrow range, with good support below \$650 and heavy resistance above \$750.

The Soviet Union continues to stay out of the market. Dealers say the market is in balance. Any good news, such as the release of the American hostages in Teheran, could be followed by a sharp fall in the gold price.

A bank's bullion manager says adverse news has had minimal impact on the price. Although he cannot be regarded as bullish at this stage, he does not foresee a dramatic decline in the gold price and describes the market as steady.

However, some of the bank's billionaire clients are not firm holders when the gold price declines.

Forgetting the political influence, it appears as if stale bull liquidation is putting heavy resistance on the price whenever it moves to a higher range.

With the Soviet Union out of the market, supplies of gold have come from speculative and investment sources.

With fabrication demand low, there is a lot of pressure on the bulls and banks to support prices.

Here is an example of the extent of liquidation. In early January the peak open gold position was 250 000 contracts on the New York Comex. Since then the open interest has declined to 170 000 contracts — equivalent to 17-million ounces of gold. Some of the open interest decline can be attributed to short covering, but it is estimated that well over 50 000 contracts — 5 million ounces of gold — has been liquidated and absorbed by others who were not fabricators. Volume has also dropped dramatically.

With this in mind, it is easy to understand why Swiss bankers are neutral and not raving bulls.

pathology set in. On the other hand, simple procedures are carried out at the Day Hospitals and this would remove the need for patients undergoing such operations as tubal ligations, to enter hospital for the operation. The number of short-stay patients would thus be reduced and this would lead to an increase in the average length of stay of inpatients.

IMF paper gold for the real thing

LONDON. — For the finance ministers from the Big Five industrial countries meeting near Frankfurt last weekend, the dollar's remarkable steadiness was some consolation in the face of unprecedented turbulence on the gold market.

Indeed, some central bankers claim that the events of the last few weeks show that the gold-dollar link — for the first time in modern history — has been well and truly severed, and that this is sufficient reason for sitting back and allowing the gold market to ride out its speculative excesses on its own.

But in spite of the show of unconcern, there remains considerable disquiet about the effects of the surge in the gold price on the long-term development of the international monetary system.

This is one of the reasons behind the renewed impetus being given by the International Monetary Fund to set up a substitution account to boost the importance of international reserves of the IMF's currency

basket, the Special Drawing Rights.

This scheme for central banks to swap part of their dollar holdings for SDR-denominated assets was one of the main topics under discussion at the Frankfurt meeting of officials from the US, West Germany, France, the UK and Japan.

If all goes well, the IMF hopes to reach general agreement to set up the account with an initial capital of \$10 000-million to \$30 000-million at its annual meeting in September.

After the Frankfurt gathering, Mr Filippo Maria Pandolfi, the Italian Treasury Minister and chairman of the IMF's interim committee, decided to visit developing countries in the Middle East and South America to try to win support for the scheme.

He is expected to discuss the proposal that the IMF use part of its gold stock to support income paid out to holders of the SDR assets. The idea that the IMF could use its holdings of around 100-million ounces of gold — worth roughly \$70 000-million at present market prices — to back capital and interest payments might prove an attractive carrot for participating central banks.

But it also risks further re-

viving the controversy over the remonetisation of gold which has been a sore point between the US and Europe for much of the past decade.

The US can argue — as officials have been doing — that gold's chronic instability of late has destroyed the remonetisers' case that gold should be returned to a central role in the monetary system.

But the monetary authorities can hardly ignore the fact that supposedly demonetised gold, valued at market prices, now makes up about 70% of monetary reserves held by the world's central banks — a proportion last seen in the 1950s.

Indeed, one reason why the US is reluctant to hold a further gold auction at present may be that it has awakened to the folly of selling off what appears to be an appreciating asset.

The rise in value of the US gold stock to around \$180 000-million — almost enough to settle America's total overseas debts — may, ironically enough, have been one of the principal factors supporting the dollar in recent weeks.

Central bankers and finance ministers cannot lightly dismiss the suspicion that strong demand from the oil-exporting

countries, which have become large holders of reserves, may have contributed significantly to the gold price explosion.

Heavy buying of gold — and silver — from the Middle East, signalling a distrust of paper currencies in general, has been linked to a general effort by these countries to diversify the content of reserves in official and private hands.

Significantly enough, Zurich gold dealers report that some central banks in Latin American countries have also taken part in the gold rush.

The reluctance of the European and Japanese authorities to shoulder some of the dollars has been one of the reasons why the idea of the SDR substitution account has gained favour among the industrialised countries.

But there is also a more positive approach. This is the desire to offer reserve holders a multinational asset, with perhaps the lure of partial gold backing, which could prove a more reliable investment than a single currency unit — especially to countries which fear political interference with their dollar holdings of the sort decided by President Jimmy Carter in connection with the freeze of Iran's dollar assets last November.

There is little to persuade the oil producers that the IMF's paper gold would be a better bet than the real thing.

— Financial Times.

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1-4	0,01	0,01	0,00	0,00	0,07	0,10
5-24	0,02	0,01	0,03	0,01	0,04	0,03
25-44	0,11	0,09	0,39	0,10	0,41	0,19
45-64	0,92	0,42	1,60	0,72	1,31	0,67
65+	1,80	1,16	1,61	2,44	1,91	0,75
ALL	0,31	0,21	0,33	0,16	0,33	0,17
NO.	553	430	116	56	370	201

	W		A		C	
	M	F	M	F	M	F
0-1	0,02	0,03	0,00	0,10	0,25	0,10
1-4	0,01	0,01	0,02	0,00	0,12	0,14
5-24	0,02	0,01	0,04	0,04	0,02	0,04
25-44	0,02	0,05	0,06	0,09	0,17	0,13
45-64	0,23	0,19	0,44	0,37	0,36	0,36
65+	1,25	1,09	1,07	1,83	1,57	1,10
ALL	0,13	0,15	0,11	0,12	0,15	0,14
NO.	276	303	38	42	169	165

The effect of case mix on the average cost per patient can be seen from Table (3.3) which illustrates differences in per patient cost at two Day Hospitals due to differences in case mix. Heideveld treats a larger proportion of patients suffering from long-term or

Table 3

EXPEND

PERSONNEL

CONSUMABLES

Provision

Cleaning

Pharmaceuticals

Medical

Workshops

Materials

Printing

Miscellaneous

sub-TOTAL

NON-CONSUMABLES

(Furniture)

OPERATING

Transport

Transport

Transport

Repairs and Maintenance

Services

Miscellaneous

sub-TOTAL

TOTAL EXPENDITURE

New IMF gold sale a last resort

ROME — International Monetary Fund gold sales under plans for an IMF substitution account would only be used as a last resort to cover potential exchange losses, assuming other ways of avoiding such losses were not available, said the Italian Treasury Minister, Mr Filippo Pandolfi, yesterday.

No immediate or regular programme of sales from the IMF's gold stock was foreseen under the substitution account plans as they stood. The current sales programme would end in May, he said.

Mr Pandolfi, as chairman of the IMF interim committee, will visit Latin America and the Middle East in the next few weeks to explain the substitution account plan. He said his trip would begin on February 23.

He said the proposal was for a fund in which big holders of dollars could deposit these in exchange for special drawing rights as a way of diversifying their reserves without putting pressure on the dollar.

But the risk of exchange losses for the fund arose if the dollar depreciated, said Mr Pandolfi.

Italy, along with the US, Japan, West Germany, France and Britain, supported a suggestion made by the IMF that some of its gold reserves could be used to cover the substitution account against potential exchange losses.

Since June 1976 the IMF had been selling gold at regular auctions to finance soft loans to developing countries. When this sales programme ended in May it would have 105-million ounces of gold left in the IMF reserves.

But before the proposed gold sales mechanism went into action, two other possibilities would be available to reserve holders which had exchanged

dollars for SDRs from the substitution account, Pandolfi said. To mobilise its reserves, an SDR holder could first try to sell the SDRs directly on the market for dollars.

Should this not be practicable, it could explore the possibility of using IMF accords to transfer them as IMF claims to surplus countries, before having to call in the last resort on the substitution account fund to pay up dollars and incur a potential exchange loss — Reuters.

THE CANADIAN Government sold 250 000 ounces of its gold holdings on the private market last month to reduce dependence on gold as an asset in official reserves, says the Department of Finance.

The sale fetched \$C174-million at an average price of \$C690 an ounce and helped the Government to repay \$C300-million borrowed from Canadian chartered banks to support the dollar over the past year.

The sale was part of a plan announced last December to sell up to a million ounces of Canada's 22-million ounces of gold to lower the proportion of gold in the official reserves.

The Government has sold gold to other nations before or to the Canadian Mint, but not to private dealers.

Officials said the sale was in keeping with a 1975 agreement among members of the International Monetary Fund to remove gold from its central role in international currency markets — Reuters.

(Source: DHO Annual Report 1977)

EXPENDITURE PER OUTPATIENT ATTENDANCE BY INPUT CATEGORY. (RANDS)

Year ended 31st December, 1975.

	DAY HOSPITALS ORGANISATION	GROOTE SCHUUR HOSPITAL	WOODSTOCK HOSPITAL	HOTTENTOTS HOLLAND HOSPITAL - SOMERSET WEST
PERSONNEL	2,199	7,6	4,597	3,60
CONSUMABLES				
Provision	0,015	0,375	0,385	0,319
Cleaning	0,042	0,22	0,152	0,097
Pharmaceuticals	0,959	1,166	0,73	0,207
Medical	0,21	1,513	0,61	0,32
Workshops				
Materials	0,0049	0,088	0,08	-
Printing	0,025	0,101	0,045	0,013
Miscellaneous	0,005	0,076	0,107	0,038
sub-TOTAL	1,261	3,538	2,109	0,994
NON-CONSUMABLES (Furniture)	0,044	0,6047	0,367	0,123
OPERATING				
Transport	0,041	0,245	0,006	-
Transport	0,064	0,165	0,12	-
Transport	-	0,073	0,006	0,022
Repairs and Maintenance	0,017	0,073	0,009	0,042
Services	0,077	0,28	0,30	0,291
Miscellaneous	0,005	0,011	0,024	0,017
sub-TOTAL	0,205	0,852	0,468	0,37
TOTAL EXPENDITURE	3,712	12,59	7,545	6,10

IMF ^{Stan} backs a ^{18/2/80} world ¹⁹⁸⁶ currency

PARIS — Countries with large cash surpluses such as oil producers, should be able to hold "part of their surplus in a currency managed internationally by the IMF and firmly backed, perhaps by the IMF's gold" IMF director General Jacques De Larosiers said.

In an interview on French radio De Larosiere said the fund should take a very active role notably in the setting up of a substitution account. This would benefit the whole international community by removing a large amount of liquidity from the world market and thereby helping to stabilise exchange rates —
'Reuter'

Hansard

3 Q (120)

19/2/80

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International Monetary Fund

155 Mr T ARONSON asked the Minister of Finance

121

TUESDAY, 19

- (1) Whether negotiations are taking place for South African representation at meetings of the International Monetary Fund, if so,
- (2) whether he will make a statement on the matter?

The MINISTER OF FINANCE

As a member of the International Monetary Fund South Africa is entitled to all the rights and privileges of a member country including attendance at annual meetings of the Fund. South Africa is not at present represented in the Executive Board of the Fund, but the South African Principal Resident Representative at the Fund looks after South Africa's interests there by means of direct access to the Managing Director and his staff. No negotiations in connection with possible representation in one of the groups in the Executive Board are being conducted at present.

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18/3/80

International Monetary Fund/World Bank
405 15/3/80 15/3/80
71 Mr H H SCHWARZ asked the
Minister of Finance
What amounts have been (a) drawn or
borrowed from and (b) repaid to the (i)
International Monetary Fund and (ii)
World Bank by South Africa since 1 April
1979?
The MINISTER OF FINANCE
(a) (i) None
(ii) None
(b) (i) SDR 229 001 000
(ii) None

IMF to discuss future of gold auctions

CT 15/4/80

(15)

58

LONDON. — The next interim committee meeting of the International Monetary Fund's board of governors is likely to discuss the future of gold auctions. The meeting of finance ministers and central bank governors will be held in Hamburg on Friday, April 25

The present series of gold auctions will come to an end in May. From June 1976 to May 1980 the IMF will have sold 25m ounces through the auctions. So far the auctions have generated \$14.4 billion and third world countries have been the beneficiaries.

On completion of the sales, the IMF will be left with 105m ounces of gold, which at current prices, is worth \$55 billion.

The big question is whether there will be a new series of auctions because the monthly supply of 414,000 ounces has become a crucial source of gold.

The board will also be discussing the formation of the substitution account, and this topic will also be indirectly related to gold.

The substitution account, as the name implies, will provide the mechanism for a new international reserve asset. This asset will be a substitute for many billions of dollars which are wasting around.

In essence the 135-member nations could swap dollars for the reserve asset which would be allocated from the substitution account.

This asset would be special drawing right bonds which would be linked to the SDR — in other words, a basket of currencies.

The holder of the SDR bond would receive interest and because the value is determined from a weighting of currencies the central bank would be

hedging against the chaos in the foreign exchange market.

Simultaneously, this substitute would take pressure off the dollar and would hopefully, alleviate exchange crises.

Leaks from Washington indicate that in its initial phase the substitution account could cover \$20 billion.

Gold comes into the picture because it may play a part in the composition of the substitution account. According to a Washington plan which was leaked early in February, the IMF would continue to auction gold.

Profits from the gold sales would be funnelled to the substitution account. These profits would then guarantee any exchange losses and keep the SDR bond stable. The dollar's weighting in the SDR is 40 percent.

If the dollar depreciates by 10 percent, then ceteris paribus, the SDR bond would fall by four percent, the gold profits could offset the holder's loss and guarantee the central bank from risk. Effectively according to this Washington plan SDR bond holders would also have a gold hedge against uncertainty.

Bullion managers, however, believe that the bond itself should have gold backing. At least part of the valuation weighting would then include gold.

Whether the IMF board of governors decide on the gold link or not, they will still be faced with the problem of third world aid.

The under-developed countries must pay for a huge oil bill. Unfortunately, in a world faced with recession their commodity exports may not be sufficient to match imports and they could encounter spiralling debts.

There could thus be much pressure on the governors to allow the gold auctions to continue. The proceeds would still flow to the third world. The board may also argue that gold has proved far too volatile to seriously contend as an international reserve asset or backing for the substitution account.

Meanwhile Swiss, London and German bullion dealers are waiting anxiously. However most predict that the auctions will continue after the present series expires next month.

It is not clear whether the IMF will continue to auction gold after the present series expires next month. The board may also argue that gold has proved far too volatile to seriously contend as an international reserve asset or backing for the substitution account. Meanwhile Swiss, London and German bullion dealers are waiting anxiously. However most predict that the auctions will continue after the present series expires next month.

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board The social owner by people's, maximized, with, flowed on board; vate-property ar- ould refuse six on if (or five) people is 12 (= 6 x 2), once—the fee he thus what could t 2 (= 6 - 4), the of two fish. The h from shore are marginal on-board

ual to the mar- a board gives a s at a maximum lucts are equal shaded area out shore. The gain, ct on the boat a five people are ally all that ex-board would bid on board. Com- roduct over his ter some part of tch on shore, he ct on the boat in- earned on shore. As long as another crew mem-

For the

earned on shore

IMF to back gold-linked 'substitution'

STAR
22/4/80

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156

By John Cavill,

Financial Correspondent

LONDON — The all-powerful Interim Committee of the International Monetary Fund is expected to give the go-ahead to a gold-linked "substitution account" when it meets in Hamburg on Friday.

According to Mr Filippo Pandolfi, Italy's Finance Minister and current chairman of the interim committee, the IMF's ruling body, the United States, Japan, West Germany, France, Britain and Italy "support suggestions that some of the fund's gold reserves be used to cover substitution account exchange losses".

500 DOLLARS

But it is far from clear how the substitution account — where central banks can swap dollars for special drawing rights without destabilising foreign exchange markets — will affect the IMF's policy on gold sales.

The last IMF gold auction will be held on May 7. Assuming a final auction price of 500 dollars, the four sales programme,

during which 25-million ounces of IMF gold was sold, will have realised 4 600-million dollars for the special trust fund set up to aid developing nations.

The IMF will be left with about 105m ounces of gold.

It is now planned that the IMF's reserves will be used to help cushion the value of SDR's issued by the substitution account in the event of a sharp decline by one of the currencies making up the SDR "basket" — in practice the dollar.

LAST RESORT

Mr Pandolfi's globe-trotting of the last two months — which has taken him from South America to the Arab oil states — appears to have won broad agreement.

It was admitted by Mr Anthony Solomon, Under Secretary to the United States Treasury, that there was "increasing consensus" about the use of gold in the substitution account.

But Mr Solomon suggested that gold would not be given "any value" for this purpose. It would simply be there.

Mr Pandolfi has, so far, been guarded about exact-

ly how gold would be used in the account.

Actual sales of gold to make up exchange losses, he said, would be a "last resort". Assuming other ways of avoiding losses were not available.

And denying that gold was slipping back into the international monetary system, Mr Pandolfi declared the IMF's bullion reserves had "a transitory function of establishing guarantees for other assets and for stabilising the dollar".

It is this function of gold in the substitution account which is likely to produce haggling by the less developed countries (LDCs) in the IMF.

They are expected to argue that the substitution account will chiefly benefit the rich surplus countries (specially the Opec bloc) which are large holders of dollars.

The LDCs may well extract an undertaking that at least part of the IMF's gold hoard — worth 53 000-million dollars, against a proposed initial substitution account of 20 000-million dollars — be used to help them fund their enormous deficits, through subsidised interest rates on soft loans.

termining the uses of resources are more likely to bear the (upward or downward) capitalized value effects of future events

in some countries (Mexico, for example) some farmers (called ejidos in Mexico) cannot sell the land they farm and occupy. They can use it and sell the crop, but they cannot sell the land.

IMF EXPECTED TO GIVE GOLD NEW ROLE

Argus 23/4/80 (156)

Argus Financial
Correspondent

LONDON. — The all-powerful interim committee of the International Monetary Fund is expected to give the go-ahead to a gold linked 'substitution account' when it meets in Hamburg on Friday.

According to Mr Filippo Pandolfi, Italy's finance minister and current chairman of the interim committee, the IMF's ruling body, the United States, Japan, West Germany, France, Britain and Italy support suggestions that some of the fund's gold reserves be used to

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LAST AUCTION

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RICH COUNTRIES

They are expected to argue that the substitution account will chiefly benefit the rich surplus countries, specially the Opec bloc, which are large holders of dollars.

They may well extract an undertaking that at least part of the IMF's gold hoard — worth 53 000-million dollars, against a proposed initial substitution account of 20 000-million dollars — be used to help them fund their enormous deficits through subsidised interest rates on soft loans.

100 meet for interim IMF talks

Argus 24/4/80 156

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HAMBURG. — Financial leaders today begin talks on the worsening world economy with little hope of much progress and with a long and difficult road ahead for their latest concrete proposal, a plan for stabilising international currency markets.

About 100 finance ministers and central bank governors have assembled in Hamburg for meetings of the interim committee, the main policy-making body of the International Monetary Fund, with other, lower-level delegates.

Most of the IMF's 140 countries will be represented. Officials have already warned against hopes for dramatic steps at this week's discussions on how to curb world-wide inflation, ease the effects of recession and find ways to allow national currencies to float less erratically against each other.

A key topic is a plan being worked out among industrial governments for a substitution account, a pool into which members with surplus dollars and other currencies outside the United States could invest.

The dollars, from countries such as the oil states with their huge dollar reserves, would be invested in the IMF in the form of special drawing rights. — Sapa-
Reuter.

ecasters' Kit of Tools

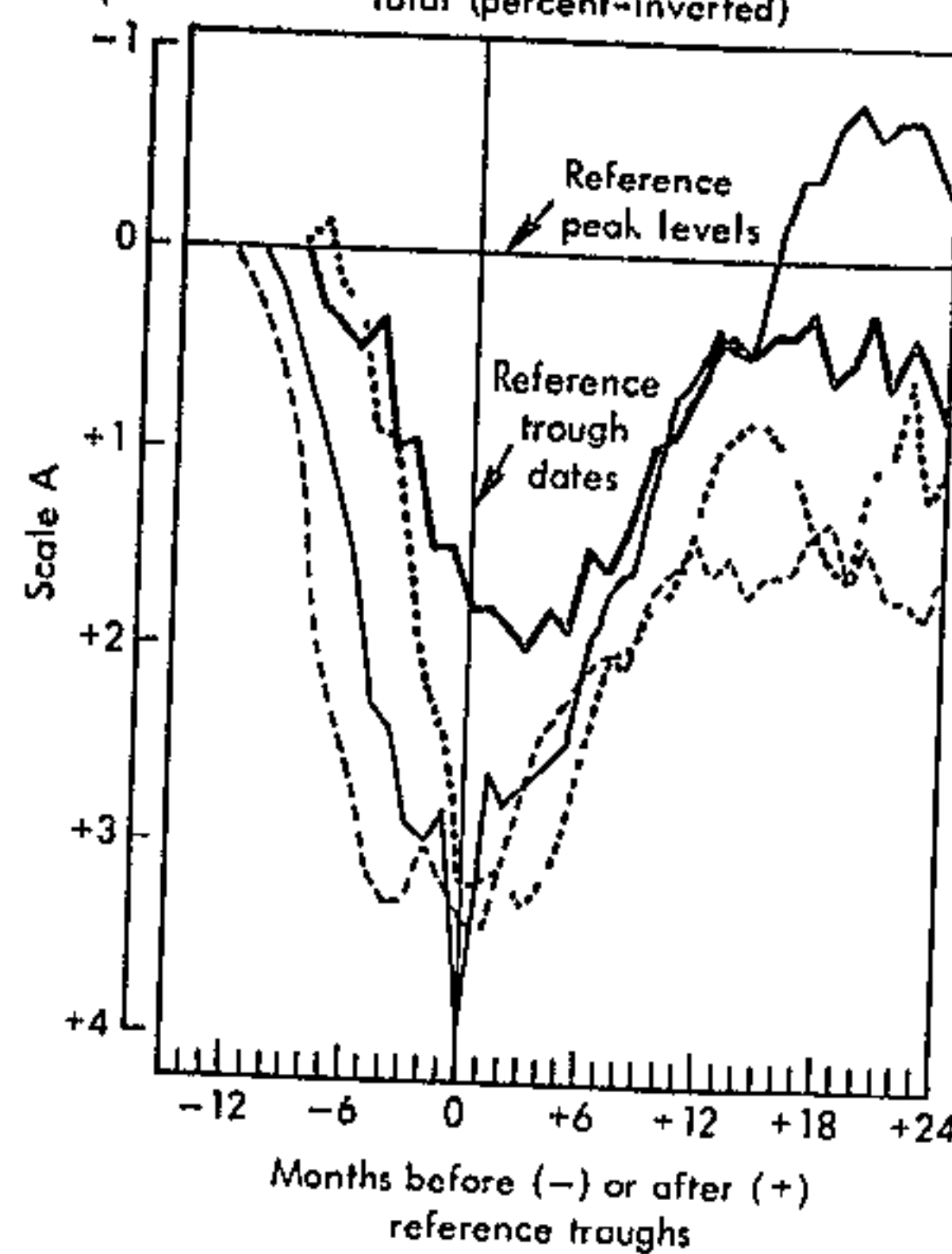
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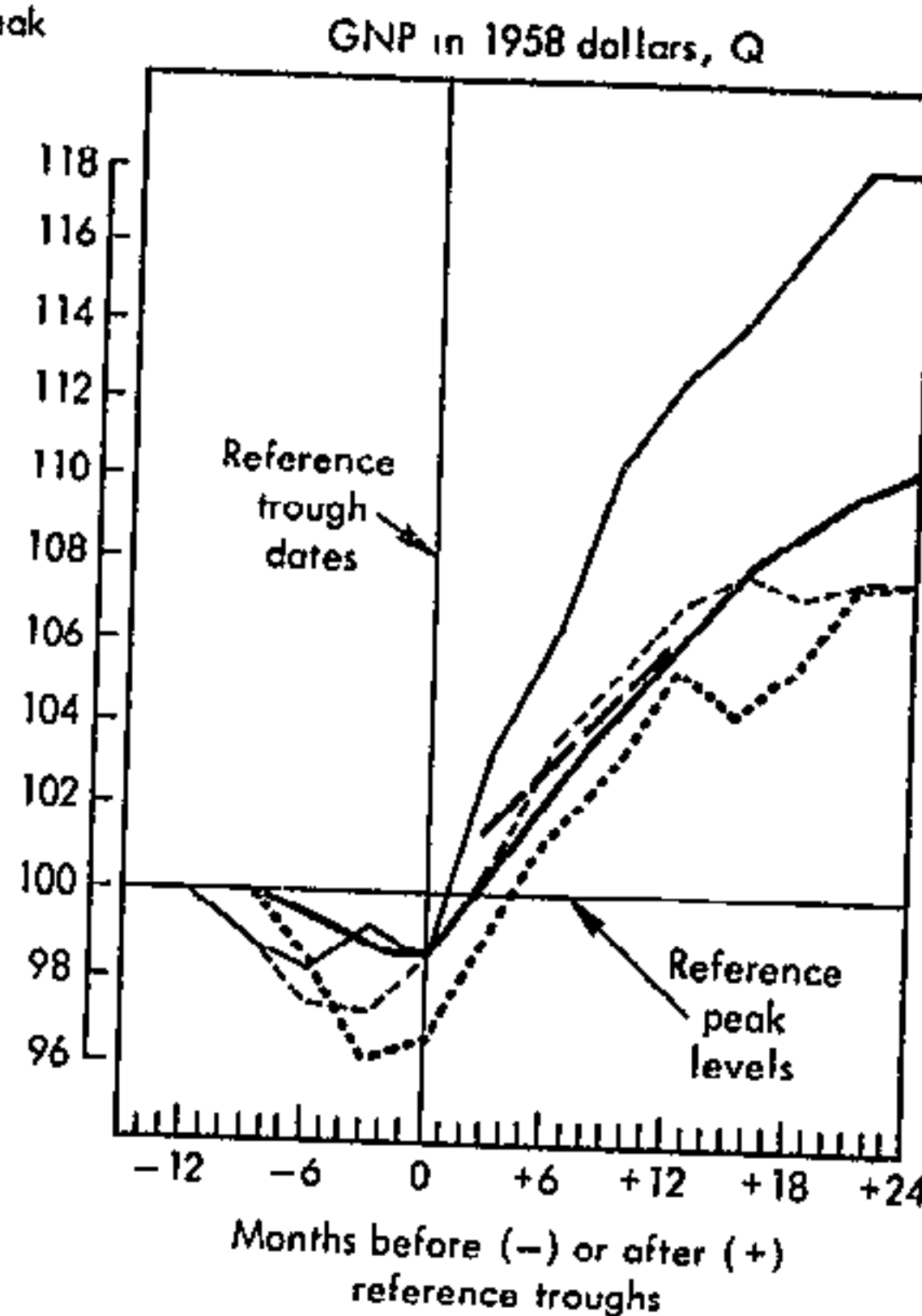
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Chart 9 Recovery Comparisons

Gold back into the cold

26/4/80

(79)
(156)

Weekend Argus
Correspondent

HAMBURG. — Gold has been put back into cold storage by the International Monetary Fund. The monthly sales of 444 000 ounces of IMF gold will end on May 7 and there are no plans for any new auctions.

This was the only firm decision to emerge from the meeting here of the IMF's ruling Interim Committee attended by Finance Ministers and central bankers representing the 140-member nations of the fund.

It was the decision by the IMF to auction 25 million ounces of its 150 million ounce gold reserves which hit the bullion price in 1976, driving it down to a low of 103 dollars an ounce.

The auctions have so far raised almost 5,000-million dollars (\$4 200-million) for a special trust fund to provide cheap loans for underdeveloped countries suffering from balance of payments deficits.

Confidential briefing papers prepared by the IMF for Finance Ministers at the meeting confirmed that the fund was planning to revive the use of gold left in its coffers.

● 25-Million ounces was to buttress the planned 'substitution account' — in which central banks could deposit unwanted dollars in exchange for special drawing rights, the IMF's 'paper gold' made up of a basket of 16 currencies.

● Up to six-million ounces to provide further funds for the poorer countries.

But the plan was sunk, according to sources here, by the Group of 24, representing the developing nations, refusing to vote for the substitution account unless more gold was allocated for their aid needs.

FINANCE

IMF LIKELY TO END GOLD SALES

Argus Correspondent

HAMBURG. — The interim committee of the International Monetary Fund (IMF) ends its meeting here with finance ministers of leading world economies saying the much vaunted substitution account was not dead.

However the IMF has decided not to sell more gold 'for the moment', the managing director Mr Jacques de Larosiere said.

But it was clear from comments by the finance ministers and the committee's final communique that any future activation of the 103 million ounces of gold held by the IMF will depend on the substitution account.

And in the words of the British delegation, progress towards the establishment of the account is likely to proceed at 'a glacial pace'.

The Americans, while paying lip service to the idea and the concurrent effort to make the special drawing right a viable medium of exchange are in no hurry to advance the account.

Mr William Miller, the United States Treasury Secretary, paid tribute to the 'enormous effort' put into preparatory work by the IMF staff but he was

distinctly lukewarm in other comments.

'I think some form of international reserve will come in due course,' he said at a Press briefing.

DUSTBIN

Mr Miller said he did not like the name substitution account. It is like a monetary dustbin into which unwanted dollars can be dumped.

Nor does he think the special drawing right is a good name for an international reserve asset. It has been a monumental failure in its intended role on the international monetary system in place of gold.

The problems of the run on the dollar since 1978 have largely receded now. And as Mr Miller wryly observed in reference to the international interest rate war and the efforts by Japan and Germany to show their 'strong' currencies: 'Everyone loves a strong dollar until they get it'.

Officially the urgency behind the substitution account founded for 'technical and political reasons' which are so entwined that neither Mr De Larosiere nor the Mr Filippo Pandolfi, Italy's Finance Minister and chairman of the interim committee could isolate them.

The key issue is the need to make the SDR more acceptable as a reserve asset which will offer some insulation against depreciation of paper currencies.

To this end the IMF staff had proposed that 25 million ounces of gold be used to augment the SDR claims issued by the substitution account.

But as the poorer countries do not suffer from an embarrassment of dollars — a problem peculiar to the rich industrialised nations and oil exporters. They appeal to want parity in the allocation of the IMF's residual gold assets and this has not found favour with the French in particular.

NEW-LOOK

Thus the IMF has been forced back to the drawing board. A new-look SDR (or some other name) is in mind. It will be made up of only five currencies (the dollar, sterling, Deutsche-mark, yen and Saudi riyal, according to IMF sources) which will be a simpler concept than the current basket of 16.

It will also carry a more attractive interest rate. But the rub is how to balance the store of value functions as between capital (helped by possible gold profits) and income (through higher interest rates).

IMF pinpoints three world economy ills

ROM 156 15-9-83

Financial Reporter

THREE disturbing features marked the world economy in 1979-80 — inflation, slow growth and big trade swings — according to the annual report of the International Monetary Fund published in Washington yesterday.

South Africa has shown a markedly different growth pattern, but inflation has been right in line.

The IMF report highlights

- Continued high inflation in most countries

- A marked slowing in growth in industrial countries, raising the threat of an international recession

- Large swings in external accounts among various groups of countries, raising doubts over the sustained ability of countries to continue financing external trade shortfalls

All these points help to explain the gold rush (although the report does not say so in this form) and thus the booming growth rate in the South African economy.

But the 1980 report of the executive directors of the IMF says there were also some relatively bright spots.

Some analysts think these could have a restraining effect on gold, although there are others who see the price heading for \$2 000 in a couple of years or so.

The bright points, the IMF says, include the slowing of inflation as growth dropped, the less-worrisome distribution of external deficits among industrial countries, and the recycling of surplus funds from oil-exporting to oil-consuming countries.

The Washington-based IMF, an international organisation which monitors the state of the world economy and the economies of its 140 member countries and offers policy advice and balance of payments financing to countries in difficulties, cites the more than doubling of oil prices since the end of 1978 as a major factor — although in varying degrees — in all main disturbing elements in the global economic picture.

The report sees a continuation for the rest of 1980 and in 1981 of a low rate of output expansion — perhaps 1% in the industrial countries, and including outright declines for the United States and Britain this year and generally lower rates

of expansion in the other industrial countries.

South Africa could well hit 7% this year.

The IMF offers no specific forecast on inflation, but cites 'unduly expansionary' credit and tax policies over a period of years in the industrial countries for the prevailing high inflation in these countries.

The effects of these factors are compounded by structural rigidities of an economic and social character, periodic external shocks and in general a difficult economic environment for policy-makers.

It says that broader measures of inflation in industrial countries indicate a slower pace of price increases than consumer-price indexes in the affected countries. This tends to reflect the lesser impact of higher prices for imported goods in the broader indexes.

The slowdown in economic activity worldwide, while far from welcome, does help to relieve some of the upward pressure on prices.

With inflation looking set for 14%-plus in South Africa this year the situation is two-edged.

A slowing of international inflation should ease pressures here, but if that slowing holds back the gold price this country might be a net loser.

On external positions, the IMF says that the combined current account balance — the sum of trade and other essentially "cash" transactions with other countries — of the industrial countries is likely to show a negative shift of more than \$80 000-million.

But this will probably be concentrated almost entirely in the accounts of the three industrial countries — West Germany, Italy and Japan — whose current account positions were the strongest in 1978.

But the projected increase of \$20 000-million in the current deficit of the smaller industrial countries may present some of them with more serious problems than those facing the major industrial countries.

Developing countries which do not produce oil will probably have a current BoP deficit of nearly \$70 000-million this year after deficits of \$53 000-million and \$36 000-million the two previous years.

The deficit of this group is expected to rise further in 1981.

WORLD MONEY (156)
Wobbling (re)cyclist
FM 26/9/80

Opec's last and most savage round of price increases could finally be at the point of overtaxing the absorptive capacity of the international banking system. Ever since Opec first overturned the international economic order in 1973, "recycling" has been the international bankers' favourite incantation.

All that recycling has really meant has been persuading the Arabs to lend their bloated surpluses to western banks — for example on the Eurocurrency market. The funds have then been lent by those bankers to their customers — especially the "non-oil less developed countries" (LDCs) which have been forced to borrow very often because of their inability to pay for costly oil imports.

Thus, despite prophecies of doom at the time, the world economy withstood the oil shocks, it at a severe price in diminished growth and increased inflation and unemployment rates.

Now, the IMF's 1980 annual report (issued on the eve of its Washington AGM) sounds the alarm all over again. Take the oil exporters' current accounts, for a start. Their aggregate surplus, notes the IMF, rose from about \$7 billion in 1973 to \$68 billion in 1974 before sinking irregularly to \$5 billion in 1978 and surging up again to \$68 billion in 1979.

The aggregate surplus is expected to reach the unprecedented figure of about \$115 billion in 1980 and to remain large for some time. But, allowing for price changes over the last six years, the 1980 surplus is about the same in real terms as it was in 1974.

Another point of importance is that much of the surplus is concentrated in only a few countries, notably Saudi Arabia, which has acquired an importance in

world financial markets out of all proportion to its population (only some seven million).

The other side of the ledger shows, of course, the corresponding deterioration in the current account positions of the industrial countries and the non-oil LDCs.

Disturbing though the current account position of the industrial countries is, it is the position of the non-oil LDCs that really gives cause for concern. According to the IMF, their combined current account deficit rose from \$36 billion in 1978 to \$43 billion in 1979, with a projection of \$70 billion for 1980. The IMF notes sombrely:

On present prospects, a further substantial rise can be expected for 1981 unless lack of appropriate financing forces the adoption of measures to curb imports severely.

The bad years since 1973 are reflected in the external debts now owed by the non-oil LDCs. Their outstanding public and publicly guaranteed long-term debt approached \$250 billion at the end of 1979, and says the IMF, will doubtless be higher by several tens of billions of dollars at the end of 1980. Even the end-1979 figure was twice the amount outstanding at the end of 1975 and well over three times the corresponding end-1973 figure.

Part of this increase represents the effect of inflation, but this can be screened out by examining the ratio of outstanding debt to exports of goods and services. This indicator was about 80% in 1979, compared with 76% in 1975 and 70% in 1973.

The simple truth about this deteriorating economic situation is that it is a recipe for economic and political disaster in many poor countries. It is difficult to believe that commercial banking mechanisms can continue to absorb imbalances on this scale for any length of time. It is also difficult to believe, on past form, that the Arabs will make their funds available, on a semi-charitable basis, to the IMF itself or to the World Bank, to bail out the indigents.

What is more likely is that an increasing proportion of Arab money will by-pass the banking system entirely, going instead into real assets like gold. Concurrently, more and more Turkish situations are likely to arise, where economic strains overwhelm political stability in bankrupted non-oil LDCs.

IMF and PLO

SA supports US

FM 28/9/80

South Africa was, not surprisingly, among the countries which gave the US just sufficient votes to block the granting of official observer status to the Palestinian Liberation Organisation at next week's International Monetary Fund meetings in Washington.

The FM also has been able to establish

that the Carter administration did not take SA's support for granted. Apparently there were several hours of informal discussion between the two countries. The US indulged in some "gentle arm twisting" and was rewarded with SA's vote, both in terms of the number of countries needed for a quorum and by the fact that SA commands a full percentage point's worth of the total IMF voting power.

The Americans needed not only a majority of countries to vote against seating the PLO but also two thirds of the total voting power of the 140-member nation agencies. The balloting at the slightly smaller World Bank (where 138 nations are members at the moment) also is weighted by contributions and other factors such as size of a nation's economy.

Ghastly precedent

South Africa obviously would view with alarm the seating of a terrorist organisation such as the PLO. It would be a short Third World step to seat Swapo and perhaps even the African National Congress. But, given Opec's growing financial clout, the numbers game at the IMF and World Bank seems inexorably to be moving against the US and its partners in the Western world which, for these purposes, always includes Japan.

This is a pity for the Bank and Fund too. In contrast to the circus-like atmosphere which prevails at the UN, both aid agencies have always maintained a reputation for integrity, efficiency and expertise. True, the Fund blotted its copy book with its gold sales policy, but this would pale beside what could be expected if the Third World were able to seize control of its affairs. Exposing the IMF's enormous assets to the discretion of the Third World spendthrifts would be akin to letting a drug addict loose in the hospital dispensary.

For example, even under the restrained,

careful stewardship of managing director Jacques de Larosiere, the IMF has loaned out an unprecedented \$25 billion over the past three years.

In its report on the Third World's defeat over the PLO issue, the *New York Times* wrote "The World Bank and the IMF have traditionally remained free of the political controversies that have divided the UN over Arab-Israel, SA and North-South conflict. The emergence of the PLO as an issue in these institutions is viewed with concern by their administrative staffs."

There is room for hope, however, as finance ministers, central bank governors and several thousand other delegates fly in from around the globe for the annual Bank-Fund meetings.

This cause for optimism, however slight, lies in the shift towards, or rather back to, conservative values in the US. Not even the power of the Arab oil producers will persuade the new US Congress to continue the vital and massive American contributions (\$5.6 billion is being demanded by the IMF from Washington at the moment) to institutions about to be subjected to financial rape by the Third World demagogues.

THE INVESTORS DOWNG

BREITON Woods is dead. The venue that gave birth to the international twins — the International Monetary Fund and the World Bank — that were to save the world from economic fragmentation, protectionism and even outright war has lost its soul.

The sun that has shone for some 36 years, even if sometimes dimly, on the grand ideal of world peace through economic co-operation and reconciliation has sunk to the horizon.

That is the conclusion to be drawn from this week's historic IMF and World Bank annual plenary proceedings.

The bureaucracy is still intact. The principles are seemingly still hanging together. But there is no doubt the redoubtable twins have reached a watershed.

The politics of north and south, haves and have-nots, have finally penetrated to the core of the 141-nation IMF and WB abdomen.

The iron resolution of IMF discipline in the conditions it sets for borrower nations to follow has been bravely defended by the big guns in the fund.

But it is yielding to the growing pressure of an increasingly strident Third World, determined to get more money at less cost with as few strings attached as possible.

Shrewd

IMF managing director Jacques de Larosiere, as shrewd and able an incumbent as the fund has ever enjoyed, has privately admitted that he fears the distinction between the twins is becoming blurred and the IMF is being inclined towards inflationary money creation and away from its prime role as a mentor and builder of bases for viable (or at least more viable) economies.

Shall we mourn the passing of the essence of Bretton Woods? Yes and no.

The cracks in the foundation of the IMF principles are worrying. The encroachment of politics no less so. The clouds of inflationary mechanics are threatening.

And yet there are also hopeful signs. For instance, the poor nations must be rescued for the sake of the world as well as the industrialised nations, and it is clear the old apparatus is simply no longer able to do the job.

Thus, the earnest searching and floundering about for new ideas, new mechanisms, new

powers, new horizons for the fund and the bank.

Change is always difficult, and never more so than for a lumbering bureaucracy like the IMF/World Bank in full session.

The fact that it is being considered at all — and in some cases in quite radical terms — is heartening in the context of the mind-boggling new challenges of the 80s.

The fact that, as former US President Gerald Ford said, the West is at the same time swinging towards a new conservatism is likewise heartening in that it will tend to moderate and resist the more lunatic demands of the developing and poor nations.

It is difficult to escape the irony of the increasing attention paid to the IMF and World Bank Created to help sustain economic recovery after World War 2, neither at first played a large or significant role.

Yet today, the central question of Bretton Woods — whether countries can organise collectively so that individual states don't take actions that cause collective harm — remains, and both figure prominently in suggested remedies, if not actually at the plenary sessions each year, which are really more like testing grounds and banking fairs.

There may be a need for rather different remedies on an altogether more massive scale. But the unalterable truth of have and have-nots remains.

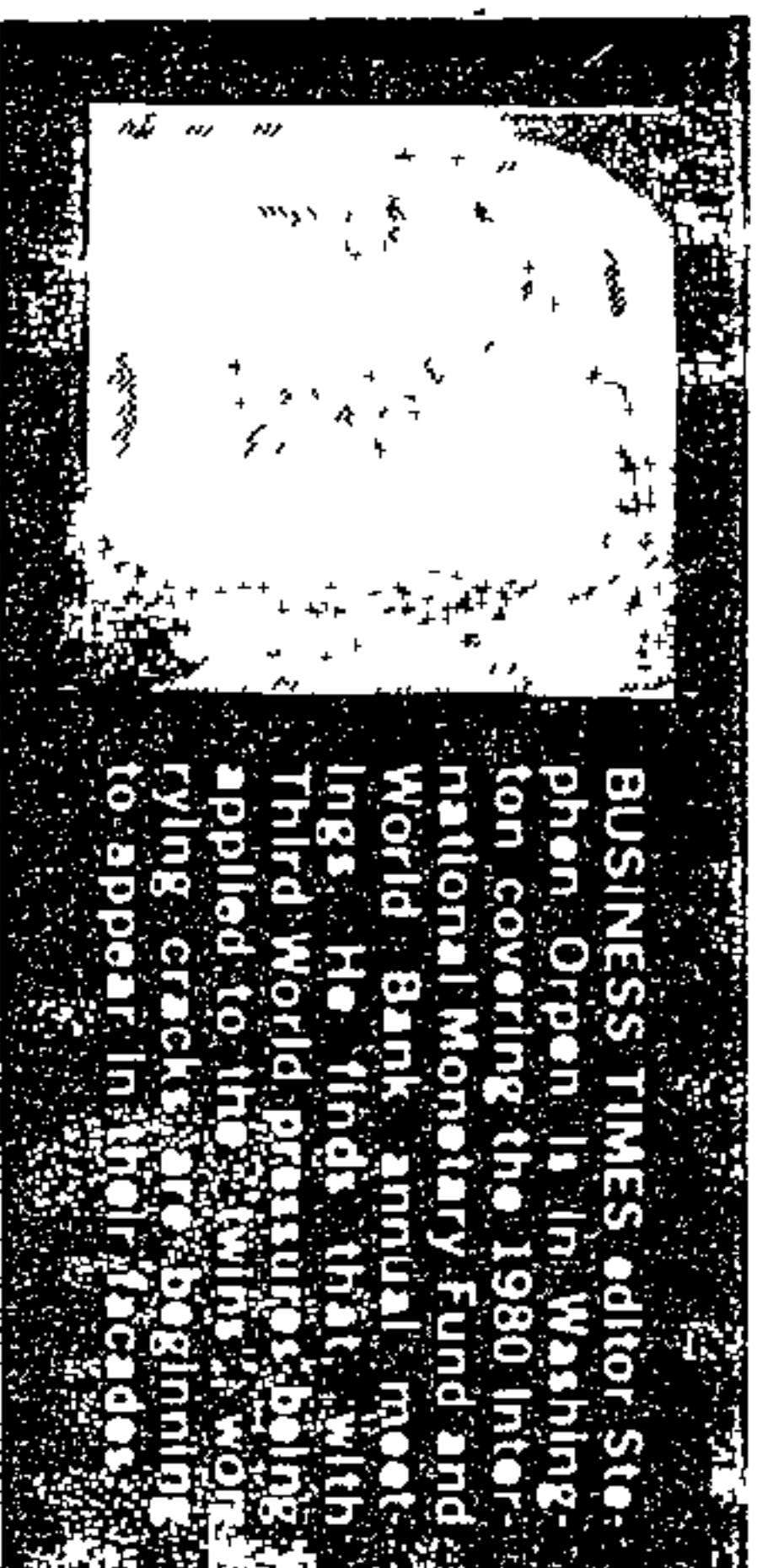
To say this is to recognise that the specific fears of Bretton Woods did not materialise.

The danger, as it was then perceived, was that unstable currency relationships — the prospect, say, that nobody would ever know how many marks a dollar would buy — would smother trade by creating uncertainty and, as countries sought to shore up their own trade balances, prompt a chain reaction of protectionism.

In fact, the era of fixed exchange rates (when a dollar was worth the same amount of foreign currency day after day) effectively ended in August 1971, when President Nixon devalued the dollar.

But, by itself, this collapse does not seem to have maimed trade. Exchange rates fluctuate, but over time, most (though not all) changes reflect different rates of inflation among countries. And the availability of credit has limited the pressures on countries to impose import restrictions.

Consequently, specific protectionist threats today come from industrial sectors — steel, cars, clothing and chemicals — where worldwide production patterns are changing and established producers seek to



BUSINESS TIMES editor Stephen O'Brien is in Washington covering the 1980 International Monetary Fund and World Bank annual meeting. He finds that, with Third World pressures being applied to the twins, "only trying cracks are beginning to appear in the facade."

preserve the status quo.

And the more general threat lies in slow economic growth which in turn depends on inflation, oil prices and availability and worldwide money flows.

These flows, of course, have spawned nightmarish visions of global financial collapse.

Most experts think this unlikely. But then most experts did not expect the depression.

Is there any more reason to believe them now?

Maybe not, but the reassurances seem plausible, even persuasive.

Havoc

In the most elementary nightmare, oil producers create havoc by shifting their huge holdings among currencies or withdrawing them from banks.

But unless the oil producers want to bury money in the sand, the funds must go somewhere.

In the wake of the US seizure of Iranian assets, for example, there's heavy circumstantial evidence that oil producers are increasingly making their deposits in trust accounts in Switzerland. But most of these funds are then redeposited in banks outside Switzerland.

As they make investment decisions, the big oil producers constantly face a financial dilemma. If they stampede dollars any single investment (or currency), they risk driving the price up and then experiencing a large collapse later.

Suppose that Saudi Arabia were to attempt to shift all its dollar investments to marks. The impact of the initial sales would almost certainly mean that the dollar investments would have to be sold in a depressed market and the mark investments bought in a rising one.

Another nightmare involves the possibility that defaults by developing countries on their private bank loans would trigger a general crisis of confidence in the worldwide banking system, leading to mass deposit withdrawals and a further drying up of loans that depresses economies everywhere.

Though frightening, this vision of a traditional banking panic may fit neither today's technology nor today's invest-

ment markets.

Not that it isn't possible to lose confidence in bank deposits for political as well as economic reasons.

IMF statistics show, for example, that oil producers increased their gold holdings last year and there are even unconfirmed reports that Saudi Arabia purchased gold from Soviets.

But in paying for their gold, the oil producers simply transfer funds to the gold sellers.

In the textbook banking panic, people actually withdraw currency and gold from banks, preferring to keep them in hand and sacrifice any interest rate return.

Thus, in turn, reduces funds available for bank lending.

Again, who today wants to bury dollars in the sand? The more realistic alternative is to keep the oil in the ground and not get the dollar in the first place.

Although total overseas loans represent a greater proportion of total bank loans than a decade ago, their share is still relatively small — about 15% of the total in 1979 against 9% in 1973, according to the IMF. Domestic loans still constitute the banking system's bulk. At the end of the 1979, total domestic assets of US commercial banks alone amounted to at least \$1.35-trillion.

The amount of damage that developing countries' defaults could do is also limited.

In June 1978, according to the IMF, total overseas loans by banks in major industrial countries totalled \$588-billion, but only about \$280-billion of that represented loans to developing or communist countries.

In turn, those debts were heavily concentrated among a few big borrowers: Brazil (\$38-billion), Mexico (\$25-billion), Poland (\$13.5-billion), the Soviet Union (\$12.4-billion), Argentina (\$10.6-billion) and South Korea (\$9.4-billion).

Nor is it likely that bankers and government officials would simply watch passively while developing country defaults ruined the banking system. When there is any warning, and there usually is, both bankers and borrowers prefer to avoid the ignominy of an actual default.

Principal payments are post-

poned or debts get refinanced with new loans.

Finally, in the crisis, most bankers and economists seem to assume that the Federal Reserve and other major central banks, such as the Bank of England or the German Bundesbank, wouldn't let a major bank be dragged into insolvency by developing country debts.

Repeatedly during the past decade, the Fed has played this traditional "lender of last resort" role, providing loans when it felt that specific financial problems could snowball into a general crisis.

None of this means that the unexpected couldn't happen. Rather than a financial Armageddon, though, the real prospect may be for a long winter of discontent.

Banks may pull back from large loan increases and new lending from government multilateral institutions may not take their place.

Investors, both multilateral companies and individual Arab businessmen, have come up against appalling procedural delays in "recipients' bureaucracies."

There is also an economic aspect to the winter-of-discontent analogy.

The oil countries' surplus funds have to go somewhere, but if they come back primarily to the major industrial countries then there may be an economic mechanism for creating a global credit squeeze.

Tight

With high interest rates in the United States and many of the other advanced industrial countries, that may be precisely what happens.

If the US Federal Reserve maintains a relatively tight money policy with high interest rates, foreigners will have to match those interest rates.

If they can't, the dollars or Eurodollars will be lent in the US because the bank will lend where it will receive the highest return.

If lent in the US, they become part of the US money supply, controlled by the Fed. Consequently, when the Fed sets money policy for the United States, it is indirectly doing the same thing for the rest of the world.

In retrospect, the huge expansion of international credit that occurred in the mid-1970s may have reflected this process in reverse.

A relatively easy money policy in the United States created interest rate conditions that encouraged international lending.

Now the opposite may happen. The possibilities, incidentally, exist for all currencies — marks, yen, francs, pounds — that have domestic and "Euro" forms.

This comes back to the unresolved question of whether Eurodollars and other forms of Eurocurrency actually create money.

If dollars are deposited abroad, re-lent abroad and then redeposited abroad — staying within the Eurobanking system — there's little doubt that there is new money creation occurring largely uncontrolled by the Federal Reserve and other central banks.

Watches

In controlling the US money supply, the Fed watches the deposits and loans of banks within the United States. Deposits made outside the country will matter little, if at all, in its decisions.

This money creation process in the Eurobanking system may

have occurred in the late 70s because many country borrowers almost certainly redeposited their loan funds in the Eurobank accounts.

But if country borrowers now have an increasingly difficult time competing for credit the reverse could occur. Dollars and other currencies will increasingly be redeposited within domestic money systems, Worldwide credit growth could slow considerably.

But, though these are the possibilities, no one really understands precisely what actually is happening.

The Eurocurrency market surely represents the most important financial innovation of the 20th Century," says Ian Giddy, a professor at the graduate school of business at Columbia university.

Most scholars would probably agree, and add that it is also the least understood.

RDM
IMF 29/12/80
extends
SDR's (156)

WASHINGTON. — The International Monetary Fund has authorised the World Bank and its affiliate, the International Development Association to use Special Drawing Rights as units of account and as reserves, the IMF has announced.

The decision means that nine international institutions, as well as the IMF and its 141 member-countries, can deal in SDR's

This facility is in line with the IMF's policy of strengthening the role of SDR's as instruments of international reserves

NEW

Argus 19/1/81

IMF

156

HEAD

Argus Correspondent

WASHINGTON. — Mr Rene Monory, the French Minister of the Economy, has been unanimously chosen by the International Monetary Fund's supervisory interim committee to serve as its new chairman, the IMF has announced here

Mr Monory will chair his first meeting of the key committee, when it meets in mid-May in Gabon to carry out its regular review of fund lending and adjustment policies, and the IMF's latest prognosis on the world economic outlook.

The interim committee has 22 members, but they directly or indirectly represent all the IMF's 140 odd member governments, and it acts as a supervisory board of broad policy moves by the international institution, when it meets twice a year.

Mr Monory has served as Economy Minister since 1978.

COLOURFUL

He is one of the most colourful and outspoken members of Mr Raymond Barre's government.

Unlike most of the previous incumbents of the grandiose premises in the Rue De Rivoli, Mr Monory is a self-made man who has not passed through ENA, the famous national school of administration, or any of the other 'grandes ecoles.'

Having left school at the age of 16 to work as a mechanic in his father's garage at Loudun in Vienne, Rene Monory quickly converted the family business from a vehicle repair shop into a flourishing concern selling cars, agricultural tractors and fuel

He eventually became mayor of his town and was elected to the senate, the French upper house, in 1968, before being appointed Minister of Industry and Commerce in Mr Barre's second Cabinet in 1977 and Economics Minister a year later.

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ARCHITECTURE

FINE ART & ARCHITECTURE

IMF does the rounds for funds

RDM
30/3/81
(156)

BASLE — The International Monetary Fund has asked the central banks of about 20 leading industrial nations to lend it the equivalent of 1 000-million special drawing rights (\$1 200-million) to boost its flagging liquidity.

The request was a major topic of discussion at a meeting of central banks at the Bank for International Settlements, the central bankers' bank.

Besides the usual participants from industrial countries, the meeting was attended by a high-ranking official from the Saudi Arabian Monetary Agency, the Saudi central bank.

The central bankers were thought to be trying to co-ordinate their response to the IMF with Middle Eastern oil producers.

The Arab oil exporters have been asked by the IMF to lend an even higher sum totalling SDR 4 600-million SDRs are the IMF's currency unit.

The efforts of the IMF to find supplementary funds are the first since the mid-19702. Most of the IMF's assets come from member governments' contributions.

These have lately been increased. A further review — the eighth round — is to be started shortly to enable the IMF to play an increased role in helping nations with balance of payments deficits.

The proposed loans from the central banks would be extended to the IMF for between six months and two years. They would be renewable and the IMF would pay interest at a rate to be decided. It is hoped that these loans would be maintained until the eighth round of quota increases was agreed on.

Over the past 12 months, the IMF's liquidity has declined substantially as large credits have been extended to developing countries who face serious deficit problems because of rising oil prices.

Although the central banks can easily provide the sum required, it is proving difficult

for them to agree on the technical means of arranging the credit.

The largest of the banks would have to put up only about 150-million SDRs with much smaller amounts from lesser countries.

Principally for reasons of prestige, the IMF would like to borrow the funds directly from central banks.

This poses difficulties for a number of them, notably including West Germany, whose legal system and balance of payments position make such a transaction far from straightforward.

The Bundesbank would need statutory authority to lend to the IMF and granting such a credit publicly would run counter to its efforts to deter capital exports.

Along with some other European central banks, the Bundesbank would prefer to pass the credit through the Bank for International Settlements, which is authorised to act as a repository for its foreign currency holdings.

The BIS would then lend the money to the IMF.

At the back of the central bankers' minds is the belief that they may be asked for additional funds by the IMF next year.

The IMF has indicated that it will borrow on commercial markets if it cannot raise all the funds it needs by borrowing from Oper and central banks in the industrial world. This is

regarded, however, as a last resort action.

In Washington, the executive board of the International Monetary Fund has not yet formally taken up consideration of the IMF tapping the private markets on its own account.

This is largely because the position on the Reagan Administration on this and on so many other issues affecting the IMF is unknown.

President Reagan has still not appointed a new US executive director on the IMF board to succeed Mr San Cross, who moved to the New York Fed in January. He has still to name an Assistant Secretary of the Treasury for International Economic Affairs.

Some IMF officials suspect that the ideological persuasion of the Administration will lead it to advocate private borrowing to top up IMF resources. But Mr Donald Regan, the Treasury Secretary, said seven weeks ago that he could not see why countries in need did not go to the markets before turning to the IMF.

Others believe the US is waiting to see how other governmental fund-raising activities progress before it makes its views known.

But the IMF staff is concerned that the US has so far paid no attention to substantive recycling problems, and would be positively distressed if the US made a loan to El Salvador, the litmus test of its future attitude towards the IMF — *Financial Times*

Gloomy African economic outlook, says IMF

By John D'Oliveira
The Star Bureau

WASHINGTON — The African economic outlook for 1981 is gloomy according to the International Monetary Fund (IMF). (156) SWM

In its latest survey, the IMF reports that the economic and financial situation in most African countries had deteriorated over the past few years.

"With only a few exceptions, non-oil-producing countries in Africa have been afflicted by low, or even worsening rates of economic growth, high rates of domestic inflation and increasing external and internal financial imbalances."

The IMF noted that these "interrelated problems" had gathered momentum since the early 70s and had been aggravated by the difficult world economic situation in recent years.

Currently available information indicated the growth of real output in the 42 African countries remained "generally sluggish", averaging about three percent for the third successive year.

This barely kept pace with the rate of population increase.

Slow growth in a number of countries had been accompanied by an "appreciable acceleration" in the inflation rate, with the weighted average consumer price increases reaching a record 28 percent last year.

In addition to "domestic constraints, African foreign trade registered large deficits, reflecting in part slow growth in the value of exports (about 17 percent in 1980), increased imports of consumer and capital goods and deterioration in the terms of trade.

The IMF reported that the combined external current account deficit for the 42 African countries last year totalled about R7 600-million, or about 35 percent of export receipts.

Looking at 1981, the IMF says that assuming more normal weather conditions prevail, the prospect was for an average output gain of about four percent.

While a moderation in inflation rates was expected, the aggregate trade deficit would continue to rise. At the same time, the long-term external public debt of African countries would continue to mount.

"Over the next one to two years, many IMF member countries in Africa will continue to have difficulty in obtaining external finance. These problems will be made more difficult by the precariousness of their reserve positions."

com 15/5/81

IMF loan for Zambia

LUSAKA -- Zambia will receive the first drawing of its new \$944-million International Monetary Fund loan in the next two weeks, putting about \$140-million into its depressed copper-based economy, says the Minister of Finance, Mr Kebby Musokotwane.

The extended three-year facility, valued at 800-million SDRs, is the second largest for an African country. Morocco received 810-million SDRs earlier this year.

Mr Musokotwane said the conditions for the package included a cut in subsidies on essential commodities, diverting resources into productive development areas and a limit on Government borrowing from the banking system.

Mr Musokotwane said there was no question of devaluing the kwacha. — Reuter

RDM 22/5/81

IMF fears SA's draft labour Bill threatens unions

By RIAAN DE VILLIERS
Labour Correspondent

THE powerful International Metalworkers' Federation may call on foreign governments to consider "adequate sanctions" against South Africa if it continues its apartheid policies.

The appeal is contained in a draft resolution on South Africa due to be debated at the IMF's congress in Washington next week.

A number of South African trade unions are affiliated to the international body — it has 14-million members — and several prominent South African trade unionists have left for the US to attend the congress.

In the wide-ranging resolution, the IMF

- Expresses fears that legislative steps enabling black unions to register now seem "seriously jeopardised" by the Government's new draft labour Bill, which, it says, is "aimed at further control of unions".

- Expresses alarm at the "lack of liberalisation" of projected new influx control measures,

- Deplores the fact that the South African Government, while claiming to be engaged in major reforms, continues to deny the majority of the population all basic rights, thus "gravely endangering" prospects of a peaceful solution,

- Appeals to the South African Government to amend labour and influx control legislation, to bring labour relations in "full harmony" with standards set by the ILO, and immediately cease all "repressive policies" against blacks.

The resolution also demands that governments of countries with investments in South Africa enforce the various codes of employment practice for firms with South African subsidiaries.

It further appeals to all IMF affiliates at companies employing black metalworkers in South Africa to "use their strength" to obtain the recognition of black unions and equal employment practices, and pledges the IMF's "full support" to black metalworkers in their struggle for equal rights.

Grim picture — and warning from IMF head

RDM 30/9/81

(156)

WASHINGTON. — A grim picture of the world economy was presented yesterday by Mr Jacques de Larosiere, the managing director of the International Monetary Fund.

He told the IMF annual meeting in Washington: "The world is experiencing the ravages of persistent, unevenly controlled inflation and of economic stagnation while still adjusting to the effects of the second increase in oil prices."

"These conditions are reflected in an alarming and rising level of unemployment, massive balance of payments disequilibrium, high interest rates and exchange markets more unstable than at any time since the major currency realignments of the early 1970s."

Mr De Larosiere came down uncompromisingly on the side on strict and continuing anti-inflationary policies.

His almost brutal message was — things will have to remain tough, and maybe even get worse for some countries, before they can get better.

Inflation

He said "It is essential not to relax efforts to combat inflation, but rather to press on with determination."

"Experience has amply demonstrated that sustained, sound growth requires that inflation first be brought under control."

"In some conditions it is possible to increase economic activity temporarily through demand-stimulating policies. But an economy in the grip of inflation cannot be permanently revived by printing more money."

Mr De Larosiere told the 143-member IMF: "The analysis I have made may appear conservative to some but I believe it is wholly realistic."

"It is true that unemployment has reached alarming levels."

"Who could underestimate the importance of this problem? Yet it seems certain that we can never hope to solve it by weak financial management."

"On the contrary the unemployment problem was exacerbated by the inflationary policies of the years 1973 to 1979."

Aggravate

He warned, "Premature relaxation of the restraints on demand in countries experiencing severe inflation would only aggravate the inflation, jeopardise the currency and hamper growth."

"In the present social environment this calls for difficult decisions."

"In fact, they will probably aggravate the economic slowdown. But they are vital if we are to overcome the stagflation that has characterised the industrial economies for too long."

Mr De Larosiere did see some encouraging points in the world economy.

By HOWARD PREECE

Industrial countries was continuing to decline. World money management was generally more than prudent than in the 1974-78 period. This was reflected in a return to positive interest rates, painful though that might be in the short-term.

● Money supply rises in most countries was tending to moderate

● New fixed investment was picking up

● Balance of payments problems in the industrial countries were righting themselves after the effect in 1978-80 of the second oil shock.

But Mr De Larosiere cautioned "This picture gives no ground for complacency."

"Only limited progress has been achieved, and inflation remains at an intolerable level despite the human costs of the efforts that have been made."

He had harsh comfort for the developing countries who are clamouring for huge new allocations of paper gold special drawing rights as a massive but disguised form of aid.

Mr De Larosiere told them bluntly: "Productive investment, the basis of all growth, can be revived not by distributing additional means of payment but strengthening investor confidence in the health of the economy."

He also rejected unequivocally the view that the United States should prematurely relax interest rates although he seemed to leave open the approach that the US should throttle back on tax-cutting and put less pressure on monetary policy.

Mr De Larosiere concluded "The vast majority of IMF countries still face an extremely difficult economic situation. If their economies are to achieve sustained growth, if the hopes and aspirations of their peoples for the coming decade are to be at all satisfied there can be no relaxation now in economic adjustment policies."

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FUNDAMENTALS OF FORTRAN

UP-7536 Rev.1

PAGE

SECTION

5

15

INTERNATIONAL MONETARY FUND

1982 — 1983 — 1984 — NOV

TUESDAY, 13 APRIL 1982

+Indicates translated version

For written reply

Stabilization Fund

370 Mr H H SCHWARZ asked the Minister of Finance

(1) What is the amount standing to the credit of the Stabilization Fund.

(2) whether any amounts have been withdrawn from the Stabilization Fund since 1 April 1981, if so, (a) what amounts and (b) when?

The MINISTER OF FINANCE

(1) R2 033 728 120

(2) (a) and (b) No transfers from the Stabilization Account in terms of section 18(2) of the Exchequer and Audit Act, 1975 were made since 1 April 1981

Available balances in the Stabilization Account, in so far as these were not used on a daily basis in terms of section 18(5) for the temporary financing from time to time of the Exchequer, were advanced to the National Supplies Procurement Fund in terms of section 18(3)(b)

Amounts borrowed by Government/Reserve Bank

371 Mr H. H SCHWARZ asked the Minister of Finance.

(1) Whether any amounts have been borrowed by the (a) Government and (b) Reserve Bank from the private banking sector since 1 April 1981, if so, (i) what amounts and (ii) when,

(2) whether any of these amounts have been repaid if so which amounts?

The MINISTER OF FINANCE

(1) (a) and (b) Apart from Treasury bills and Government stock, neither the Treasury nor the S A Reserve Bank has borrowed from the private banking sector in South Africa since 1 April 1981

(2) Falls away
156 Howard 13/4/82 Q 61, 586
Amounts drawn from International Monetary Fund/International bodies

373 Mr H H SCHARZ asked the Minister of Finance

What amounts have been drawn by the Government or Government agencies from (a) the International Monetary Fund and (b) other international bodies since 1 April 1981?

The MINISTER OF FINANCE

(a) South Africa made use of its reserve asset position (gold tranche) in the International Monetary Fund by drawing R115,2 million on 8 February 1982. This is the equivalent of 107 2 million Special Drawing Rights

(b) None

Valuation of trees damaged by fire

419 Mr P R C ROGERS asked the Minister of Environment Affairs.

(1) Whether the scale for the valuation of trees damaged by fire has been updated for compensation purposes; if so, when;

(2) what is his Department's valuation for (a) blackwood, (b) yellow-wood, (c) bluegum and (d) pine trees in the (aa) large, (bb) medium and (cc) small categories;

(3) whether his Department includes provision for the payment of compensation in estimating the cost of re-establishing burnt plantations?

Document spells out fear of IMF bid to expel SA

(156) By JOHN MATISONN: Washington ^{12/7/82} S. Times
THE Reagan Administration is worried that a South African Government attempt to draw an International Monetary Fund loan may provoke the country's expulsion from the world body.
Moves in this connection could happen as soon as September, when the IMF is due to meet.
A confidential US Government document prepared in Washington for the American Embassy in Pretoria discloses American concerns and how they should be expressed to South Africa.

The document is marked "Limdis Greenback," which stands for "Limited Distribution" and the code "Greenback".

It contains clearance signatures from the IMF, the Treasury and the State Department's Director for Southern Africa, Mr D H Simpson.

It was leaked to the Press by Mr Randall Robinson, director of the black American lobbying organisation, Transafrica, as part of Transafrica's effort to encourage South Africa's expulsion from the IMF.

The document points out that South Africa is considering requesting IMF assistance, and the United States Embassy is requested to "inquire discreetly" of the appropriate American authorities whether a request to the IMF is likely in the next few months.

If these inquiries result in queries about the US attitude, the document continues, the American Embassy should reply "on an if-asked basis" that

"All member countries of the IMF have the right to draw on the fund's resources in circumstances where their balance of payments position requires it under the agreed rules.

Resolution

"The US judges all applications for IMF drawings on their merits.

"The US would certainly judge any South African request strictly by these standards."

It adds "However, there is another aspect of the matter which you should be aware of. As you know, a recent United Nations General Assembly resolution calls upon the IMF to consider expelling your government.

"This, of course, would have to be initiated by one or more governors of the IMF before the annual meetings in September.

"We have no information that any governor will put such a question on the agenda, but there is always the possibility that a South African Government request to borrow could prompt someone to do so."

The US is concerned about the possibility of "yet another" issue such as this arising, which could serve as a basis to attempt to politicise the fund.

A disgrace if IMF (156) Stan kicks out SA - MP 19/7/82

By Peter Sullivan
Political Correspondent
It would be scandalous and disgraceful to try to deprive South Africa of International Monetary Fund facilities on political grounds, Mr Harry Schwarz MP, Opposition spokesman, on Finance said today.

He was reacting to Washington reports that the US State Department is concerned that a possible South African bid to seek assistance from the IMF could touch off an attempt to revoke South Africa's membership.

A slump in the price of gold — South Africa's main export — has prompted South Africa to borrow heavily in international capital markets recently to finance its high import bill.

It may now seek additional help from the IMF.

A State Department memo indicates the Administration is worried that South Africa's enemies in the 146-nation IMF may seize on a South African request to try to "politicise" the IMF.

The document said the Administration had no information that any fund member would seek South Africa's expulsion, "but there is always the possibility that a South African Government request to borrow could prompt someone to do so," reports Associated Press.

Mr Schwarz said South Africa could survive if it were not permitted to draw IMF money, but it would be more convenient to use this source.

South Africa had always fulfilled its IMF obligations.

Attempts to expel it

now would be disgraceful.

"The economy is in a serious position in regard to the balance of payments and it would probably help to be able to use these facilities. But even if they were cut off, we would still cope," Mr Schwarz said.

Punishing South Africa for its politics at the IMF would compromise the whole monetary policy of the Western World.

Dr Joop de Loor, Director-General of Finance, said the Government had been aware for some time of efforts being made to get it out of the IMF.

Mr Owen Horwood, Minister of Finance, said in Pretoria today: "There are appeals to be some mischief-making. I have no comment to make at this stage."

By JOHN MATISONN
Washington Bureau

WASHINGTON — The Reagan Administration is worried that a South African Government attempt to draw an International Monetary Fund loan may provoke governors to expel South Africa from the IMF at its September meeting.

A confidential American Government document prepared in Washington for the American embassy in Pretoria lays out American concerns and how they should be expressed to South Africa.

The document is marked "Limdis Greenback", which stands for "limited distribution" and the code "Greenback". It contains clearance signatures from the IMF, the Treasury and the State Department's Director for Southern Africa, Mr D H Simpson.

It was released to the Press by Mr Randall Robinson, director of the black American lobbying organisation TransAfrica, as part of TransAfrica's effort to encourage South Africa's expulsion from the IMF.

Leaked document indicates fear of IMF bid to expel SA

The document points out that South Africa is considering requesting IMF assistance, and the United States embassy is requested to "inquire discreetly" of the appropriate South African authorities whether a request to the IMF is likely in the next few months.

If these inquiries provoke queries on the US attitude, the document continues, the American embassy should reply on an "if asked" basis. "All member countries of the IMF have the right to draw on the fund's resources in circumstances where their balance of payments position requires it under the agreed rules."

"The US would certainly judge any South African request strictly by these standards."

"However, there is another aspect of the matter of which you should be aware. As you know, a recent United Nations General Assembly resolution calls upon the IMF to consider expelling your government."

"This, of course, would have to be initiated by one or more governors of the IMF before the annual meetings in September. We have no information that any governor will put such a question on the agenda, but there is always the possibility that a South African Government request to borrow could prompt someone to do so."

"We are bringing this possibility to your attention. It deserves your study and thought. The decision in this matter is obviously yours to make."

The document urges the US embassy to handle the matter with great caution. The US is concerned about the possibility of "yet another" issue such as this arising, which could serve as a basis to again attempt to politicise the fund.

"On the other hand, it would not be consistent with our policy with respect to the IMF to discourage South Africa or any other nation requesting fund programmes."

"Our motivation in approaching the South African Government on this matter at this time is simply to seek information regarding its intentions and to be certain that it is aware of all the factors that are likely to

come into play" while the request was being considered.

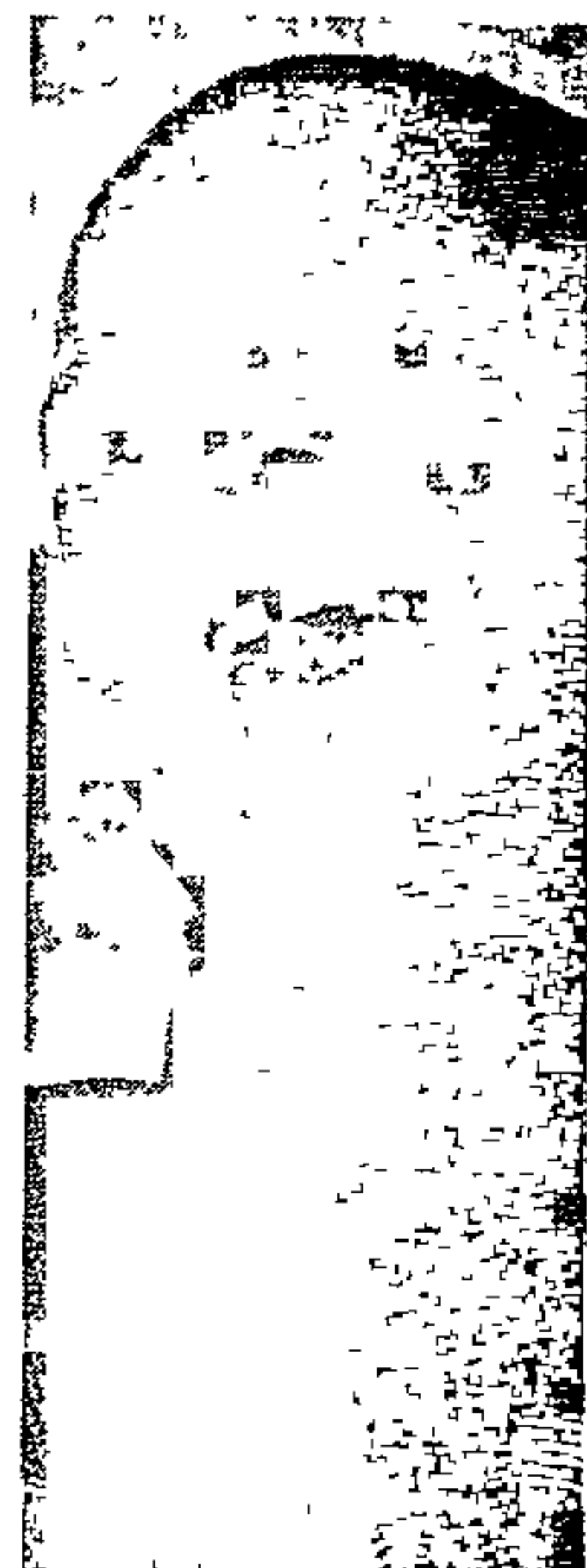
The State Department was unable to confirm or deny the authenticity of the document, but promised to investigate it.

Mr Robinson, who last year leaked a set of State Department documents dealing with the meetings between America's Assistant Secretary of State Dr Chester Crocker, the Minister of Foreign Affairs Mr Pik Botha, and the Minister of Defence General Magnus Malan, said he was confident it was an authentic document.

He said the document showed the extent to which the South African economy was troubled, and he would do everything to cause the IMF not to assist South Africa.



Sullen members of the dispossessed Barolong community at Rooigrond in Bophuthatswana attend the meeting called to discuss their request for land they can call their own.



MR SIMON MAKODI
Head of the tribe

g tribe waits 11 years for promised land

BELA

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they wanted the "promised alternative land" from the South African Government.

"Prime Minister Mr P W Botha and Dr Piet Koornhof, the Minister of Co-operation and Development, must either give us other land or take us back to Machaviestad," they said.

Mr Simon Makodi, head of the tribe, said at a meeting called by the Bophuthatswana Government at the temporary settlement, a farm belonging to the late Chief Montshioa at Rooigrond, that his people did not want to become subjects of another Barolong tribe at Bodibe, west of Lichtenburg.

"They wanted land they could call their own. I'm hurt that President (Lucas) Mangope

told the meeting that 29 of their cattle were stolen while grazing in the fields last week and that the South African Government should pay for the stolen cattle.

"We have been dumped here and are suffering from hunger, with no lands to plough. Our livestock has been stolen and we have nothing today. The Prime Minister and Dr Koornhof must pay for our stolen cattle."

"Our people helped the Boers during the war against Mzilikazi. We also fought with whites in the Second World War but have not been paid anything for that. What have we done to deserve all this? We must be given back Machaviestad, our ancestral home."

thatswana Minister of Works who was sent by President Mangope to talk to the displaced community, had appealed to the people to join Chief Matlabe's tribe at Bodibe.

"We know your land is at Machaviestad from where you were removed. We know, too, removals bring hardships. But remember you were not the first people to be removed this way. Other people have left behind places they loved and the graves of their gods (ancestors)," said Chief Motsatsi.

"You can't fight for ever," he added. Chief Motsatsi said the Bophuthatswana Government knew the people wanted their own land. But there was no land. He urged them to join

Forum for commonsense

Among international organisations there is none which operates more efficiently in the interests of its members than the International Monetary Fund. As a founding member of this body, SA has always enjoyed excellent relations with its executives and is held in high regard at its headquarters in Washington.

The IMF's rational and intelligent approach contrasts sharply with that of the United Nations. And the reason is simple. The UN has degenerated into a circus of the absurd on the principle of one-nation-one-vote. Voting at the IMF, on the other hand, is based on a quota system, with voting power linked to the size of each member's contributions. Thus, for example, in recent years the voting strength of the Arab bloc has grown, reflecting its increased economic clout.

Another saving grace of the IMF is that most of the Eastern bloc, including the Soviets, are not members. Presumably this is because those countries wish to avoid IMF surveillance of their economies, riddled as they are

with the sort of control measures which IMF economists know lead to distortions and inefficiencies.

The IMF is certainly not in agreement with SA's political policies. It is no doubt also in disagreement with the policies of others among its 146 member nations. But its task is to provide balance of payments assistance and guidance on economic policy.

In moves expressly aimed at causing economic damage to SA, a radical American group is agitating for the expulsion of SA from the IMF. Its chances of success are practically nil. But the question that arises is just who do these radicals think will suffer first and most from economic warfare against SA?

The answer is clear: our black peoples. But this is, as always, of scant concern to those limousine liberals on the Washington cocktail circuit who trundle out their tired arguments for boycott, isolation and conflict. They have been aptly described as those who have become used to living right and thinking left.

Date 25 October 1978

Degree/Diploma/Certificate for which you are registered (e.g. B A, B Sc) B Com

Subject Economics II
(to be copied from the heading on the Examination Paper)

Paper No. 195 P.T.
(to be copied from the heading on the Examination Paper)

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NOTE CAREFULLY

1. The answers only on the right hand pages will be marked. The left hand pages may be used for rough work, but no credit will be given for such work.
2. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
3. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
4. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.

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1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.
2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
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Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

SA wins Round 1 in IMF battle

By GERRHARD PIETERSE
WASHINGTON — South Africa has won an important round in its fight to stay in the International Monetary Fund.

While pressure is mounting to terminate its membership, intense lobbying by South Africa's supporters in the IMF has succeeded in defeating a proposal to have the issue discussed at the annual meeting of the IMF shortly in Toronto.

As a result, the proposal has been scrapped from the draft agenda for the Montreal summit.

The IMF, one of more than 200 agencies controlled by the United Nations, has received direct instructions from the United Nations headquarters in New York to "reconsider South Africa's position", informed sources told me. Should

POWERFUL LOBBY BLOCKS

BID TO GIVE SA THE BOOT

South Africa lose access to the Special Drawing Rights fund controlled by the IMF, its credit-worthiness would be seriously impaired, an informed political source in Washington told me.

"Short of actually providing gold as surety, South Africa could experience serious difficulty in raising future loans on foreign credit markets."

A coalition of Third World countries and Soviet satellite nations continue to mount pressure on the IMF and at least one more attempt to have South Africa's

position placed on the IMF agenda is expected before the meeting is convened during the first week of September.

"Although South Africa has been successful so far in warding off attempts to have its membership of the fund terminated, the coalition of countries committed to having South Africa expelled is equally determined to succeed," an informed economic source said.

The resolution, passed earlier this year by the General Assembly of the

United Nations by a large majority, urges the IMF to "reconsider" South Africa's membership of the fund.

The resolution — sponsored, among others, by the Soviet Union, Angola, Libya and a host of South Africa's traditional enemies within the UN — was passed on to the IMF in February.

A source within the IMF said a majority of the 22 members of the IMF's board of directors was in favour of keeping South Africa as a full member of the fund because of its significant cash contribution to the special drawing rights fund and because South Africa had "traditionally met its obligations to the IMF."

"Although it might be a close call, South Africa should succeed in defeating a vote to have it ousted," the source said.

He pointed out that a two-thirds majority was needed to suspend South Africa's drawing rights.

Ranking 23rd out of the total IMF membership of 146 nations in terms of its contribution to the IMF, South Africa has contributed nearly R636-million to the Special Drawing Rights fund.

This represents about 1.09% of the total amount in the Special Drawings Rights fund, which South Africa is certain to withdraw in the event of having its drawing rights suspended.

"By withdrawing its contribution to the fund, South Africa could cause a significant amount of damage to the Special Drawing Rights fund," a source said.

In the event of the attempt succeeding, however, the ultimate loser would be South Africa.

HUGE LOAN BID MAY EXPULSION FROM IMF

US/Le Reagan 4/9/82 156

Warning in US confidential document

LONDON — A confidential United States Government document warns that an attempt may be made to expel South Africa from the International Monetary Fund.

South African plans to borrow 1,000-million dollars of IMF funds could trigger the expulsion move.

The American document, a draft cable from the State Department in Washington to the US Embassy in Pretoria, was prepared two months ago, although it was not transmitted.

The message, whose authenticity has been privately confirmed to the Observer in London, provides an unusual insight into the Reagan administration's private dealings with South Africa.

Discretion

The cable says the US "understands that South Africa is considering the possibility of requesting IMF assistance in the next several months".

The Pretoria Embassy is therefore requested "to inquire discreetly of appropriate authorities whether such requests to the IMF are likely".

The American position is then explained, but it says this information should be relayed to the South African Government only on an "if asked" basis.

Warning

All IMF members have the right to draw on funds, and "the US judges all applications for fund drawings on their merits", but the South Africans should be warned that "there is another aspect of the matter which you should be aware of".

Because of a UN General Assembly resolution calling for South Africa's expulsion from the IMF, a UN-specialised agency, the US should urge Pretoria to reconsider its decision to apply for an IMF loan.

The US Embassy is asked to tell the South Africans that "the decision in their matter is obviously yours to make".

South Africa is facing a serious balance-of-payments crisis due to the plunge in the gold price (moving up again). Last February it drew 250-million dollars of IMF credits — Observer News Service

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IMF accepts SA assurance on deficit

Star 4/11/82 (156)

By Neil Lurssen
The Star Bureau

WASHINGTON — South Africa has assured the International Monetary Fund that it intends to reduce the national budget deficit to about two percent of gross domestic product for 1983-84 and finance the deficit entirely outside the banking system.

Total spending will again be reduced in real terms, but the authorities will ensure that training and infrastructural programmes designed to ease medium-term constraints on growth will be less affected than other public expenditures.

This was stated by the IMF here in a brief analysis of the country's economy when announcing its agreement to the South African loan of about R1 240 million

In its analysis the IMF quotes figures in SDRs (Special Drawing Rights). Each SDR equals 1,1 US dollar.

The analysis said that the IMF's compensatory financing facility provided financial assistance to member countries facing balance of payments problems caused by temporary shortfalls in export proceeds, which in turn was caused by factors largely beyond their control.

EXPORT SHORTFALL

The drawing by South Africa was in respect of a shortfall in export earnings for the 12 months ending in June, 1982. During this period, total export earnings fell 13 percent below the average level of the two preceding years.

The shortfall was accounted for by declines in export receipts for gold, as well as in exports like diamonds, uranium, platinum, nickel, copper, iron ore, citrus fruit, wool and karakul pelts.

Altogether the shortfall was estimated at

SDR 1 099 million with non-gold exports contributing SDR 752,4 million.

"The Government's economic and financial programme aims at reducing the current account payments deficit from nearly six percent of gross domestic product to two percent for 1983," the analysis said.

RESTRAINT

The principal instruments for achieving this would be domestic financial restraint and a flexible exchange rate policy.

It said that measures in the monetary field would be supported by fiscal measures.

South Africa, the analysis said, was an original member of the IMF and had, in the past, used the fund's resources, the last occasions being in 1976 and 1977 when it drew SDR 160 million and SDR 232 million respectively.

These amounts were subsequently repurchased and South Africa had no outstanding purchases

IMF gives SA loan in spite of objections

ARGUS 4/11/82 156

Argus Bureau

WASHINGTON. — The International Monetary Fund has approved a R1 240-million loan to South Africa after unprecedented opposition from Third World countries.

The US representative on the fund's executive board supported the South African application in spite of intense pressure from liberal congressmen and almost the entire African diplomatic community

The decision is expected to generate renewed diplomatic and Congressional pressure on an Administration which is already criticised for an alleged policy "tilt" towards South Africa

An IMF spokesman said the decision had been taken in the "usual way" by the board. There had been no formal vote and the managing director, Mr J de Larosiere, had heard the views of the executive directors, then accepted the "sense of the meeting"

68 nations

However, it is understood that the loan was vigorously opposed by the Saudi Arabian, Indian, Libyan, Iranian, Chinese, Guinean and Nigerian executive directors, representing 68 countries and 19.24 percent of the board's vote

Britain, the United States, West Germany, France, Holland, Belgium, Canada and Italy (representing 51.6 percent of the vote) supported the application

However, the executive directors representing these nations expressed deep reservations about South Africa's racial policies

Mr Richard Erb, of the US, is understood to have prefaced his support for the loan with a condemnation of apartheid

It is believed this was the first time Third-World countries had spoken out with such force in the IMF. In 1976 and 1977, South Africa was granted loans without opposition

Difference

The Third World countries claimed the loan would strengthen an abhorrent regime, but the Western representatives said IMF decisions should be taken on purely economic grounds

A US State Department communique said the fund was a financial institution which would be undermined if political factors entered its judgments.

"The United States has, in the appropriate political forums, forcefully expressed its abhorrence of apartheid and of violence from whatever quarter in Southern Africa," it said

South Africa applied for the loan to cope with balance of payments problems which the fund has agreed were due to factors largely beyond the country's control

Cash for
SA is ¹⁵⁶
granted

US papers back SA's IMF loan

▶▶ From page 1

tern nations expressed deep reservations about South Africa's racial policies

Mr Richard Eib, the US executive director, is understood to have prefaced his support for the loan with a condemnation of apartheid

It is understood this is the first time Third World countries have spoken out with such force in the IMF's history. In 1976 and 1977, South Africa was granted smaller loans without any opposition

While the Third World countries opposed the loan because they claimed this would strengthen an abhorrent regime in South Africa, the representatives of the Western countries said the IMF's decisions should be taken on purely economic grounds

A State Department communique said the Fund was a financial institution which would be undermined if political factors entered into its judgments

"The United States has, in the appropriate political forum, forcefully expressed its abhorrence of apartheid and of violence from whatever quarter in Southern Africa

"The US position on the South African drawing indicates no change in our opposition to apartheid or in our opposition to the use of force to resolve political differences in the region"

● South Africa applied for the loan in order to cope with balance of payments problems

● See Page 29.

By John D'Oliveira
The Star Bureau

WASHINGTON — Two of the United States' most influential newspapers have backed South Africa's right to borrow money from the International Monetary Fund

The Washington Post and the Wall Street Journal said that while South Africa's racial policies were repugnant, the IMF should stick to economic fundamentals when taking its decision

The Wall Street Journal said that if South Africa was denied the loan, it might be tempted to tighten its belt by cutting back on the programmes

that benefit the 'dispossessed'

"The Nationalist government is already faced with a serious white backlash over the reforms it has managed to achieve. Rejection in international forums is likely to strengthen the hand of the far Right — is that what South Africa's critics want?"

Beyond that, there was the question of the politicisation of the IMF

"If South Africa is denied a loan, or if political conditions are attached to it, what grounds would there be for the recent IMF credit to Romania, by all accounts one of the most repressive states in the world?"

"Does the IMF want to be in a position of trying to rewrite Mexico's constitution, or dictating new labour laws to Bolivia, or trying to clean up Argentina's jails?"

The journal said that a 470 million dollar loan South Africa drew from the IMF in 1976 was repaid on the dot — which was more than could be said for many other debtors

The Washington Post said that if US moral approval became necessary for membership of the IMF, the body would not last long and the world would lose one of its more effective economic stabilisers

It said South Africa had contributed to the IMF in the past and had a right to draw on the fund now

"To attach conditions of broad political significance to that kind of loan would mean singling out South Africa for a kind of treatment given to no other country"

Horwood pays tribute to fund

The International Monetary Fund had managed to withstand sustained pressure from the United Nations and various anti-apartheid groups in deciding to grant South Africa its loan, the Minister of Finance, Mr Owen Horwood, said last night

"I wish to pay tribute to the IMF for the objective and firm stand it has taken in the cause of sound international financial relations and policies," he said in Pretoria.

Before any member country could draw more than its so-called "reserve tranche" from the fund, it had to agree to meet certain conditions relating to its financial policies

"We have in the nor-

mal cause of our budgetary, fiscal and monetary policies, complied in advance with the fund's requirements

"We designed and applied these policies of financial discipline in our own national interest long before we contemplated using the IMF loan facilities, and we shall continue to apply them for as long as they are appropriate," he said

"That we have succeeded in today's difficult economic and financial conditions in obtaining this loan finance from the IMF will further enhance our high credit rating in the international capital market," Mr Horwood added

Sapa

SA bid for IMF loan flares into major row

By John D'Oliveira,
The Star Bureau

WASHINGTON — The South African request for a R1240 million loan from the International Monetary Fund has erupted into a major controversy — with significant implications

for the Reagan Administration. Members of the IMF executive board meet in Washington today to consider the South African loan application following weeks of intense lobbying in Washington and New York.

Yesterday a delegation representing Washington's African diplomats met the Secretary of State, Mr

To Page 3, Col 11

Request for IMF loan

sparks

big row

3/11/82

George Shultz, to convey to him their government's opposition to the loan.

It is understood Mr Shultz repeated to them the Reagan Administration's belief that IMF decisions should be based on purely economic considerations — and that the administration would persist in supporting the South African application.

Yesterday's meeting at the State Department followed a special gathering of African ambassadors on Friday at which it was agreed to send a delegation representing black Africa to see Mr Shultz.

The Egyptian Ambassador, Dr Ashraf Ghorral, said yesterday: 'We have conveyed to the Secretary the view of our government which was emphasised in the UN General Assembly.

"What happens now is a matter for our government."

The meeting was symbolic of the unexpectedly intense pressure — from liberal Democrats in Congress and from the representatives of black Africa — that is being applied to the Reagan Administration over its decision to support the South African application.

Spokesmen for the 40 Congressmen and women who have written to the administration opposing the loan have hinted that the administration might have a hard time getting congressional approval for IMF funding if the loan is approved today.

Early today, however, observers believed the loan would be granted.

Buthelezi discusses IMF loan with Reds

Own Correspondent

JOHANNESBURG. — The Kwazulu leader, Chief Gatsha Buthelezi, met top Russian officials in the United States and discussed the proposed International Monetary Fund (IMF) loan to South Africa with them

Chief Buthelezi disclosed this at a press conference at Jan Smuts Airport yesterday afternoon. He was returning from Washington where he received an American human rights award.

Chief Buthelezi, who was accompanied by his right-hand man on the Reef, Mr Gibson Thula, said he briefed top Russian officials on his activities and attitudes.

The Russian ambassador, Mr Anatoly Dorbrynin, was not available and he had talks with the embassy minister and the first secretary instead. The Russians had "listened very carefully" to what he had to say.

They had discussed the proposed IMF loan to South Africa. The Russians had felt strongly South Africa should not be given the loan.

"I could not support their view on the loan because of the urgent need for facilities in black areas," he said.

IN THE WAR between Britain and the U S at the annual IMF and World Bank meetings here South Africa's Minister of Finance, Owen Horwood, says he and his team are solidly behind the tough, deflationary line being espoused by men like British Chancellor Sir Geoffrey Howe and the managing director of the IMF itself, Jacques de Larosiere.

Mr Horwood says he cannot endorse the U S proposals in their present form

These proposals call for extraordinary new concessions to the demands for additional 'hand-outs' from already tottering under-developed economies.

Safety net

Prominent as usual among the S A team, Governor of the Reserve Bank Dr Gerhard de Kock explains that 'we naturally support the U S idea of a new safety-net fund as a last-resort answer to the danger of major defaults by borrower nations.

'We agree that the first priority must be to prevent another Mexico, or worse, which could have the domino effect of sparking a whole series of national collapses and thus a catastrophic world depression.

'But we are immovably opposed, as we are in our own economy, to a relaxation in the conditions for acquiring further funds

More time

We feel the U S proposals in their initial form, whereby IMF member countries facing emergencies in their commitments to repay the IMF and First World banks, might simply ask for more time to repay, and further large hand-outs from the devel-

S A with Britain 156 *Mercury* 7/9/82 against U S at IMF crisis talks

oped countries, are unacceptable

'This would amount to merely speeding up the printing of easy money

It would be inflationary and it would merely postpone for a short while the emergencies it sought to cure.

Not least it would simply lead to a still more crushing world depression in due course.'

'Deputy-governor of the Reserve Bank Dr Chris Stals adds 'You might say it's a Catch 22 situation

'There has to be a new system for rescuing the crippled economies, sinking in debt, from bringing down the entire world economy if they founder

'At the same time, this is no time to be letting up in the fight against inflation'

'The answer would seem to be for all IMF member countries to pledge themselves on increases in IMF quotas even if it takes time to work out how this should be done in a non-inflationary, disciplined way.'

Dr Stals and other members of the S A team agree that this kind of consensus would reassure commercial bankers that the IMF will have enough money for all borrowers they fear are now heading the Mexican way.

At present the amount any country can borrow is

in proportion to how much it has deposited with the IMF

This, in turn, is fixed by its share of world trade, output, reserves and so on.

Each borrower has to satisfy the IMF's staff and its board of governors that it will follow policies which will improve its economic performance — and not least its balance of payments

The bombshell proposal

virtue of sounding more relevant to the immediate fears of bankers and Treasury officials of a possible default, whereas the discussion over IMF lending quotas is essentially a medium-term issue, aimed at IMF facilities in the second half of the decade

As Dr de Kock comments 'All of us have first to make it through the first half of the eighties'

The major industrial countries committed

Special Correspondent TORONTO

by U S Treasury Secretary for International Monetary Affairs Mr Beryl Sprinkel for a new emergency safety net would have allowed a 'terrible dilution' in the IMF conditions for lending.

The Sprinkel proposal has also detonated suspicions among other industrial countries that Washington might seek to bypass the multilateral principles of institutions like the IMF, only assisting countries of whose policies it approved.

This 'political' lever in the proposals is approved under the table by many of the advanced economies

But they fear the principle, if allowed to slip through even in milder format, could backfire in future agreements.

On the other hand, the Sprinkel proposal has the

themselves to reaching an agreement on bolstering IMF resources as soon as possible.

But they have not reached a consensus on just how big the increase in IMF funding should be.

U S Treasury Secretary Donald Regan and British Chancellor Sir Geoffrey Howe say that G-10 (Group of 10) members agree there should be an early resolution of the question of increasing IMF resources.

LDCs, hard-hit by mounting debt to the West, have called for at least a doubling of member-country quotas, so that assistance can be increased at least 25 percent and probably more than 50 percent.

But Mr Regan says the G-10 ministers themselves have not reached agreement on the size of an increase.

US takes hard line at IMF

By David Bamber, Financial Correspondent
TORONTO — The main point emerging from the International Monetary Fund meeting in Toronto has been the wide divergence between the views of the United States and those of the rest of the Western world.

While all the other industrial countries agree that prudent financial policies should be followed, US Treasury Secretary Mr. Donald Regan seems to be the only one who has the courage to recommend their im-

plementation right in the heart of the world's monetary hub — the IMF.

Mr. Regan has stressed that the US is not against an increase in quotas but he wants to know how much money is needed, who needs it, and why.

He is against doling out money without a commitment from beneficiary countries that they are doing something to pull themselves out of the mire.

Mr. Regan has pointed out that the IMF is not a welfare organisation. Its function is to assist member states

with temporary trade balance difficulties.

The required commitment from the developing countries has not been forthcoming.

The Group of 24, backed by France, has called for more aid with fewer conditions and has warned of possible defaults if the cash is not provided.

This call received a psychological boost from the Mexican crisis resulting in all the industrial countries except the US agreeing that increased quotas were necessary.

But there were not many assurances by the Group of 24 that they would implement

sound policies to assist in the recovery.

The way in which Britain backed the move towards increased quotas may indicate that it supports the line the US has adopted.

But Britain's wily Chancellor of the Exchequer Sir Geoffrey Howe, put it in such a way as not to become a target of criticism alongside the US.

While he is prepared to go twice as far as the US when it comes to a reallocation of quotas, he has made it clear that the UK wants to contribute less, in percentage terms, than in the past.

Millions for development despite American cuts

Financial Correspondent

TORONTO — Despite a more than 50 percent fall in contributions from the United States, the International Development Association (IDA) will still receive more than R3 450 million in contributions during the 1983 fiscal year.

The IDA announced last night that other

member countries had decided to increase their contributions after the US stuck to its decision to contribute only R1 035 million instead of the R2 300 million originally committed.

Taking a "charity begins at home" stance earlier this week, US Treasury Secretary Mr. Donald Regan told a Press briefing the US did not need to offer apologies for the short-

fall as our contribution is double that of the next biggest donor."

This had led to several other countries withholding their payments.

But now that the US has committed the shortfall of R1 380 million to the 1984 fiscal year, the other member countries have come to the rescue.

IDA is the largest multilateral institution

of its kind. It has committed R31 000 million to more than 1 300 projects and programmes in 78 countries since 1960.

It is funded almost entirely by grants from 33 member countries, of which South Africa is one.

Nine of the 33 countries are still in the "developing country" category and two of these are former IDA borrowers.

Inflation 'boosted by wage rises'

Mr Horwood . . . "We will not try to manipulate the market"

Financial Correspondent

TORONTO — The narrowing of the wage gap was adding 50 percent to South Africa's inflation rate, Mr. Owen Horwood told a group of foreign journalists here yesterday.

Mr. Horwood said wage increases in the lower income group which were not linked with productivity improvement had been made for reasons of "stability" in South Africa.

The current inflation rate of 14.6 percent would have been down to "between nine and 10 percent" if wages had not risen so rapidly — "but that is still too high."

Mr. Horwood again called for a greater role for gold in the international monetary system.

"I am not advocating a return to the gold standard — we have earned more on gold since the standard was scrapped in 1971."

Attempts to demonetise gold had failed, in fact it had become more important in the monetary system in recent years.

Mr. Horwood stressed he was not pushing for gold to replace the US dollar — "It's not gold or the dollar, it's gold and the dollar in which South Africa was interested."

He said South Africa would continue to sell its entire gold production. "We will not try to manipulate the market in any way."

Mr. Horwood said he expected the gold price to continue rising during the next six to eight months but added that there would be large day-to-day fluctuations.

The other industrial countries have backed the need for substantial increases in quotas, with the French going the furthest with their acceptance of a rise of at least 100 percent.

The major flaw in the US stance is that America probably stands to lose more than any other country if there is a series of defaults by developing countries.

Mr. Regan acknowledged this but felt that, while this would place some strain on US banks, the country's economy would be able to handle the situation.

If this is so, Mr. Regan seems to be tackling the problem of the world's economy the right way.

It would be pointless if, at the end of a week's meeting, all that had really been accomplished was an increase in aid to developing countries.

After all, the Finance Ministers of the member countries originally met to try to sort out some of the problems facing the world economy and to discuss ways of starting a lasting recovery.

And in the often quoted phrase of Sir Geoffrey Howe, "You don't solve a money problem by throwing more money at it."

UN move to block IMF loan to SA

NEW YORK — The heads of three United Nations committees have called on the International Monetary Fund to reject an application by South Africa for a credit of Special Drawing Rights equivalent to about R1 240 million.

The appeal was contained in a joint statement issued by the chairman of the Committee Against Apartheid, Mr Yusuf Matramba Sule, of Nigeria, the president of the Council for Namibia, Mr Paul Lusa-ka of Zambia, and the chairman of the Decolonisation Committee, Mr Frank Abdulah of Trinidad and Tobago.

OPPRESSION

They said their committees had repeatedly called for a cessation of all assistance to South Africa by the IMF and other UN specialised agencies.

"Such assistance encourages the Pretoria regime to continue with its inhuman oppression of the South African people, illegal occupation of Namibia and acts of aggression against independent states," they said.

South Africa needed such credits because of its "enormously increasing expenditure

for military and repressive purposes," they added.

Citing General Assembly resolutions calling on the IMF to refrain from granting assistance to South Africa, the statement said "We consider it imperative that as a specialised agency, the IMF should be guided by these reso-

lutions, adopted by the votes of an overwhelming majority of member states.

"We call on the IMF to reject the application by the racist regime of South Africa. We urge all member states of the IMF to take all appropriate action towards that end." — Reuter.

The from about I have mentioned there are both advantages and disadvantages in the price system and a central allocation system and the system that is best for the country would depend on the nature of the market of the country. The most efficient way of determining country a central price system might be the most efficient.

IMF is scraping 156 bottom of barrel

The International Monetary Fund plans to seek additional money commitments from its members because its coffers are almost empty. This report from London.

A surge of lending demands from countries as diverse as South Africa, Mexico and Argentina is beginning to stretch the resources of the IMF.

David Tonge of the Financial Times, who was recently in Washington, says the IMF is preparing to approach its members for loans.

Officials told him: "By early next year the IMF will have committed all its borrowed resources."

The fund plans to approach Saudi Arabia at the end of this year to see if it will increase its commitments to the fund by 50 percent. But officials are also keen to see a better balance in commitments from such industrialised countries as Britain and West Germany.

The latest forecasts of the fund's liquidity needs have been prepared against a background of mounting staff concern about the chances of world recovery and anxiety about the problems recession is creating for countries trying to carry through programmes under IMF conditions.

"More than half of our programmes are

inoperative, one official said. In the past month alone, six programmes to a value of 1 300 million Special Drawing Rights have had to be cancelled.

Reasons range from the effects the collapse of commodity prices have had on export earnings to a shortage of staff to complete the IMF reports needed to continue disbursement.

The cancellation of existing programmes has helped to reduce existing IMF commitments and ease recent pressure on its liquidity but many countries will soon be returning to the fund with rewritten programmes.

The fund's forecasts of SDR 8 600 million commitments by April 30 next year include the SDR 1 000 million agreement with South Africa, a three-year stand-by arrangement of about SDR 3 600 million with Mexico and a 12 to 18-month stand-by arrangement of SDR 1 200 million to SDR 1 800 million with Argentina.

The IMF wants to restrict the terms of any agreement with Argentina because of uncertainty about its political stability.

INTERNATIONAL FINANCE

IMF loan to SA: opponents cry 'political expedience'

WASHINGTON—On the surface, South Africa's application to the International Monetary Fund for a R1 240 million loan should have been a simple affair

As a member of the IMF in excellent standing, South Africa was perfectly within its rights to ask the world body for money to help the country improve its balance of payments and strengthen foreign reserves — the reasons given for the application by the Minister of Finance, Mr Owen Horwood

However, nothing involving South Africa and the so-called international community is simple

In terms of the IMF's rules, South Africa was allotted a quota of 634 million Special Drawing Rights (SDRs), the IMF's unit of currency, so to speak, each worth R1 24

The quota was taken up by paying 25 percent in hard currency and the rest in domestic currency

According to IMF rules, a country can withdraw its hard currency (25 percent of its overall quota) unconditionally and immediately when it believes circumstances warrant. South Africa withdrew this money from the IMF in February

In addition, the IMF offers its members two other facilities

● A standby credit facility equal to a country's full quota, to be drawn in allotments of 25 percent of the total — with the conditions attached to each allotment becoming progressively stiffer.

● A compensatory financing facility, also equal to 100 percent of a country's quota, to be used if there is a sudden drop in that country's export earnings. But the country concerned must convince the IMF that the drop

John D'Oliveira Behind the News



followed circumstances beyond its control

Because of deteriorating balance of payments, South Africa looked to the IMF for financing which would have been available, in Mr Horwood's words, "over an extended period on very reasonable terms"

South Africa then applied to the IMF for a loan of 1 000 million SDRs (about R1 240 million), made up out of a combination of the standby credit facility and the compensatory financing facility.

By a long way, this was South Africa's biggest foreign loan application

CONTROVERSY

The action was taken as quietly as possible, to minimise the inevitable controversy — but as soon as word leaked out, waves of disapproval started breaking around the IMF and the United States Department of the Treasury, which announced that it supported the South African loan application

On October 5, the United States Secretary of the Treasury, Mr Donald Regan, said the Reagan Administration would judge the loan strictly on its economic merits

In a letter written to protesting Congressmen a few days later, Mr Regan said the apolitical nature of the IMF was essential, and that any introduction of political considerations could undermine the credibility and the effectiveness of the body.

In any case, he said, the Administration believed its political objectives in South Africa — particularly encouraging an environment for peaceful internal

change — could best be furthered by the President's announced policy of constructive engagement

The critics believe the money should be refused because it would endorse the "unjust status quo" in South Africa and fuel the South African war machine

They say it would also damage further the Reagan Administration's credibility in Africa

And they have pointed out that there are precedents for the IMF to act on other than purely economic criteria

One critic Dr Jim Moriell, of the Centre for International Policy, Washington, told the United Nations General Assembly earlier this month that the United States had consistently used its powerful position in the IMF to oppose loans to countries with which it had political differences

He claimed the United States followed "purely economic criteria" only when this was politically expedient

Be this as it may, there is no question that the United States wields tremendous power in the IMF

VOTING POWER

A member country's voting power in the IMF is related to its subscription which in turn broadly reflects its relative size in the world economy — unlike the United Nations where it is strictly one-country-one-vote

America has 19.64 percent of the total voting power in the IMF. With France, Germany, Great Britain, Japan and Canada it can command a majority

South Africa has 1.03 percent of the total votes

There seems little likelihood that the South African loan application will be rejected by the IMF next week.

But next time South Africa goes to the organisation for help the fuss will be greater

And the time after that... who knows?

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Loan to SA: snub critics, IMF urged

By Michael Chester

The International Monetary Fund has been advised by Mr Robert S McNamara, influential former president of the World Bank, to ignore overseas political critics trying to block a R1 240 million loan to South Africa.

Mr McNamara came to the defence of the loan application in an interview in Johannesburg. He is on a research tour to ascertain the economic, political and racial problems of Southern Africa.

"I think the political flak should be ignored," he said as the countdown began to an IMF decision due on November 3. "The charters of both the IMF and World Bank state that decisions about the size and form of assistance to member nations should be based solely on economic grounds.

"It would be a violation of the charters, as well as a political mistake, to introduce politics into either institution.

"Though I have views about political matters in South Africa, under no circumstances should assistance agreements have political implications."

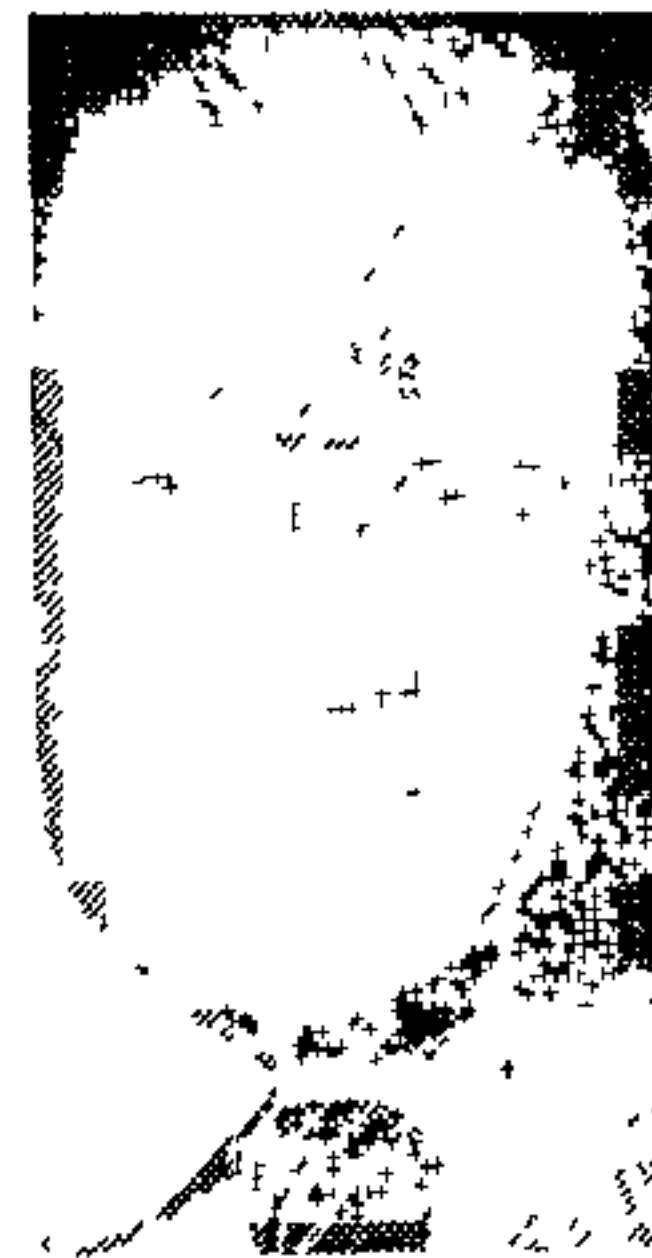
Mr McNamara, also a former United States Defence Secretary, will deliver the Chancellor's Lecture at Wits University on Thursday evening.

His address on political and racial issues is certain to dispel any notion that his defence of the IMF loan application indicates general support of South African policies. The commentary is likely to be pungent.

Mr McNamara was also confident that despite the dimensions of global debts — now estimated at a R625 000 million — the chances of a collapse of the international financial system are remote.

The scale of national debts around the world began to emerge in detail a few weeks ago when Mexico admitted it was unable to meet immediate obligations to service debts now estimated at nearly R100 000 million.

One by one, a string of countries from Latin



Mr McNamara... world banking system won't collapse.

America across to Black Africa, into Eastern Europe and on to the Far East have admitted enormous debts that many concede they have problems in handling.

Even the ultra-cautious Dr Johannes Witteveen, a former managing director of the IMF, considers the risk of a world banking crisis "undoubtedly higher than for many years."

However, Mr McNamara is convinced that institutions such as the IMF and World Bank, along with the Organisation for Economic Co-operation and Development and commercial banks, will find ways to solve the financial muddle.

Bid for IMF loan should be judged on merit

ARGUS
19/10/82
156

From Neil Lurssen
WASHINGTON —
Reagan Administration officials are anxious that South Africa's application for a 1 000-million US dollars loan from the In-

ternational Monetary Fund should be judged on economic grounds only

To oppose the loan on political grounds, says US treasury Secretary Donald T. Regan, would be a violation of the

apolitical nature of the IMF

This is the gist of a letter sent by Mr. Regan to congressmen opposed to the deal with South Africa

There is a strong feeling here that the loan will be granted when the executive board of the IMF meets on November 3

"OBJECTIONABLE"

While the IMF is not commenting publicly, a fund source is reported to have said that the loan would be approved because it is technically feasible, although groups opposed to South Africa's policies would consider it 'politically objectionable'

He said South Africa's proposal was "strong". The country's international credit rating was good and export earnings were expected to increase in coming years

HEARINGS

And it is expected that the US Treasury, which supervises American participation in the affairs of the fund, will support South Africa's application because there are no technical or economic reasons why it should not

Meanwhile, attempts to stop the loan will continue here. A number of Democratic Congressmen, including Mr. Howard Wolpe, chairman of the House sub-committee on Africa, are said to be asking for special hearings on the issue during the pre-election recess of Congress

This is regarded as an extraordinary step

In addition, the Congressional Black Caucus, whose chairman is Mr. Walter E. Fauntroy, Democratic representative from Washington, DC, is preparing legislation that would prevent the United States from supporting IMF loans to countries that violated human rights

There is a precedent for this in a provision which governs loans from the Inter-American Development bank

HUMAN RIGHTS

However, Mr. James Morell of the Centre for International Policy, which monitors US foreign policy and its impact on human rights, said he had no doubt the loan would be approved. And it would be a "great encouragement" to private banks to increase lending to South Africa, he added

By John D'Ohveira
The Star Bureau

WASHINGTON — The International Monetary Fund staff has recommended approval for the South African Government's request for its largest foreign loan.

The R1240 million loan application has sparked a storm of controversy in anticipation of the formal decision to be taken by the fund's executive board in Washington next Wednesday.

It is expected the board will endorse its staff recommendation.

Protests have flowed from the United Nations General Assembly, from America's Congressional black caucus, from the Congressional ad hoc monitoring group on South

IMF staff backs big loan to SA

St 27/10/82 (156)

Africa, from Representative Howard Wolpe, chairman of the House sub-committee on Africa, and from a string of other individuals and organisations.

Many of these protests have been directed to the Reagan Administration for its decision to support the South African loan request because, the ad-

ministration claimed, discrimination against South Africa on political grounds would be contrary to the principles under which the IMF operates.

The protesters have claimed that the loan would endorse an "unjust status quo" in South Africa and that it would enable South Africa to continue fuelling its war effort in

Namibia and in South-eastern Angola.

It is understood the staff report prepared for Wednesday's meeting recommends approval of the loan to South Africa "in accordance with the request." South Africa applied for help from the IMF because of balance of payments problems.

The IMF staff confirmed South Africa's shortfall in export earnings was "short-term in character," related primarily to weaker world demand and low prices.

These developments were attributed to factors beyond South Africa's control.

In effect, the IMF staff was saying South Africa had met the financial criteria for the loan request.

IMF set to grant SA loan

NEW YORK. — South Africa was about to be granted a \$1 100-million International Monetary Fund loan, it was learnt in New York yesterday

An official, who did not want to be named, told the Associated Press the loan would be granted "despite objections from groups critical of South Africa's policies"

US Treasury Department officials refused to comment. Objections to the loan have been raised by the United Nations General Assembly, US congressmen and human rights groups

The UN General Assembly has repeatedly asked the IMF not to approve loans for South Africa

Dr Chris Stals, senior Deputy Governor of the Reserve Bank, said in Durban yesterday that a decision on the loan application should be known in the next three weeks.

If the IMF had any monetary disciplines it wanted South Africa to apply they would be known before the yearend

There has been speculation that the September 1 rise of 20% in general sales tax would be linked with another increase to meet IMF requirements.

Dr Stals said that money supply, Government financing of its deficit, the exchange rate and extension of bank credit had been tackled to meet probable IMF requirements

The payments by the IMF would be over a year — once a quarter

Dr Stals said that when IMF officials discussed the issue in February this year there was an opinion that South Africa did not need assistance

He disclosed that the Reserve Bank had given a company permission last week to enter into contracts on the financial futures markets

There was talk in Johannesburg of establishing a financial futures market in South Africa. This would iron out the fluctuations and volatility of interest rates, he said

It had become "difficult to determine whether changes are really of significance or whether they are reversible and merely reflect short-term fluctuations created by uncertainty and nervousness".

Dr Stals said that the gold price was "based on irrational decisions".

Investors were not taking note of rational expectations and it was impossible to de-

termine gold-price trends, or prices

Dr Stals forecast that the South African money and capital markets would remain relatively tight for the foreseeable future, but volatility would increase

Defending the Reserve Bank against critics of its policies during the "golden years", Dr Stals said that between 1977 and 1980 there had been a surplus on current account of the balance of payments of R7 700-million, and of this R6 400-million had left SA in capital outflow

Of the remainder, R1 000-million had been used to repay short-term borrowings and the net result was an increase of about R200-million in the reserves

This answered the criticism that the bank should have eased exchange controls to drain liquidity.

In 1981 there was a trading deficit of R3 700-million which had been eased by a net capital inflow of R1 000-million. But the added reserves were absorbed within the first six months of the switch into deficit. At the end of the year the bank owed R1 100-million abroad

In 1982 the deficit reached R2 700-million which was only partly covered by a capital inflow.

The net capital inflow for the first half year was R600-million

"The total foreign liabilities of the monetary banking sector increased from R2 600-million at the end of 1981 to R5 200-million at the end of June 1982"

These provisions include "commute"

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Bid to counter IMF loan opposition

Argus Bureau

WASHINGTON — A top Reagan Administration official met congressional aides today in an effort to counteract opposition to South Africa's R1 240-m loan application to the International Monetary Fund

The IMF executive board is due to meet here on Wednesday to decide

whether the South African Government is to get the biggest loan it has ever sought

There has been vigorous congressional opposition to the Reagan Administration's decision to support the South African loan application — and demands for action to delay the IMF decision to enable different congressional committees to

hold hearings on the loan issue

Today Mr Dick Erb, the United States' executive director on the IMF, repeated the Reagan Administration's view that IMF decisions should be taken on purely economic issues

He stressed that any move to delay the IMF decision would set a bad precedent which could

seriously effect the workings of the body

Mr Erb denied that the granting of the loan would be heralded as a major South African victory

He explained that it had been embarrassing for South Africa to be forced into a position where it had to apply for the loan

TORONTO — The Reagan Administration is softening somewhat its approach to the economic problems of the Third World.

But, despite signs of greater generosity, it is still at odds with most other countries over the resources and policies needed to head off a world financial crisis brought on by too many countries owing too much to too many commercial banks.

Both the softened attitude and the continuing differences were apparent in Toronto as delegates prepared for the formal opening today of the 37th annual meeting of the International Monetary Fund and World Bank.

The New York Times reports that this year the external debt of the developing countries will rise above 500 000 million US dollars, twice the level of less than six years ago.

High interest rates, slack world trade, plunging commodity prices and shrinking aid have made it difficult for growing numbers of countries to meet their payments. For low-income countries, external debt last year reached 220 percent of export earnings and it is expected to rise further this year.

Ministers representing close to 100 developing countries warned that if these adverse trends continued the

Grim threat of economic collapse as IMF meets

whole international system of trade and finance could collapse.

A world debt crisis would trigger an even sharper global business contraction, boosting unemployment in developed and developing countries and wiping out all hopes, it is feared, for an American recovery in the fall.

The differences are essentially between those who give and those who receive. They also concern the conditions for such help — how much debtors would have to tighten their belts to pay the money back.

Washington's somewhat great generosity has resulted, analysts have said, not only from a sharpening awareness of global interdependence but also from a shift in the political stance of the administration, which has moved from doctrinaire conservatism to great pragmatism.

Some evidence of the change came in America's swift response last month to the call for help in Mexico, the biggest debtor in the Third World.

Mexico, cash-poor but oil-rich, is seeking emergency loans and postponement of 10 000 million US dollars in payments becoming due on its 81 000 million dollar overall debt to foreigners.

The United States provided some credits and helped to arrange others from the international community. But the exchange con-

correspondent, David Bamber, reports that the weaker developing countries could face severe shortages of credit as the international private banking community becomes more selective in its lending.

According to the Toronto Financial Post, bankers have become increasingly uneasy about their role as

their new sovereign business as there were inadequate rewards relative to the increasing risk involved. Canada was also under pressure to conserve capital.

Other international bankers echo these sentiments. The executive vice-president international of the Canadian Imperial Bank of Commerce said there was a

world recovery programme to stimulate non-inflationary growth in industrial as well as developing countries.

The major elements of the recovery programme should be a concerted effort on the part of the industrial countries to bring about a revival of their economies through

- An appropriate mix of monetarist and fiscal policies

- A removal of protectionist barriers to international trade

- A reduction of military expenditure and a rechanneling of such resources to increase development aid.

They also urged that international financial institutions play a larger catalytic role in assisting recovery in developing countries through a substantial increase in structural adjustment and programme lending, expanded balance of payments support with low conditionality and the institution of a medium-term facility on concessional terms.

The Ministers said

If high interest rates and slack world trade continue, the whole international system of trade and finance could collapse. Ministers at the 37th annual meeting of the International Monetary Fund say it is imperative that a recovery programme be formulated to revive ailing economies.

trols Mexico decreed last week may make it more difficult for it to qualify for a prospective 4 500 million dollar loan from the monetary fund.

Of the other debtors which may not meet their payments this year, Brazil owes nearly 75 000 million dollars, Argentina 35 000 million, Poland 26 000 million and Cuba 1 000 million dollars.

The Star's financial

principal providers of medium-term international financing for "sovereign" borrowers — countries borrowing in international credit markets for their own treasuries or government agencies.

They would like the IMF and the World Bank to do more in monitoring and funding the less-developed countries.

In recent months Canadian banks have noticeably cut back on

"great rescheduling scare" due to the growing list of countries which had to renegotiate their loans.

Ministers of the developing countries attending the IMF meeting have warned that the whole international system of trade and finance could collapse unless the adverse trends in the world economy are reversed.

They said it was imperative to formulate a

the arrangement recently adopted by the Organisation for Economic Co-operation and Development countries on minimum interest rates on export credits could further inhibit trade in capital goods and aggravate the financial burden of developing countries.

They deplored the hardening of conditionality evident in the increasing resort to preconditions and the current tendency for the IMF to shift from three-year development programmes to one-year programmes.

There was no effective substitute for "a straightforward and sufficient increase in contributions to enable the IMF to discharge its due responsibilities commensurate with members' needs."

While the Ministers acknowledged that the industrial countries had made some progress in the struggle against inflation, they expressed concern over the "severe and prolonged" slowdown in real economic growth of these countries.

The continued stagnation in the major industrial countries had led to the growth prospects of developing countries looking grim.

The industrial countries were also blamed for the sharp decline in the prices of most primary products and the weak external demand.

The terms of trade of developing countries without oil had deteriorated for the fourth consecutive year in 1982 to the lowest levels since the 1950s.

In addition the high prevailing interest rates had added enormously to the debt service burden of developing countries.

Increasing difficulties of access to the capital markets had made the task of financing the deficits "extremely onerous."

Even the oil exporting countries were not immune from these developments. The combined current account surplus of these countries had shrunk from 115 000 million dollars in 1980 to an estimated 15 000 million dollars in 1982.

Prospects 'bright' for SA

By David Bamber, Financial Correspondent

TORONTO — South Africa's prospects looked very bright, a jubilant Dr Gerhard de Kock, Governor of the SA Reserve Bank, said in Toronto on Saturday night.

The Finance Ministers of several countries had complimented South Africa on the firm action it had taken to overcome its economic problems, he said. Though the financial discipline applied in South Africa was not popular at home, it was very popular abroad.

The sharp rise in the gold price had also helped to improve confidence in South Africa's ability to put its finances straight.

But Dr de Kock warned: "Be cautious — don't place too much reliance on Friday's jump in the gold price. It could easily fall just as sharply."

He felt, however, that the metal

would not drop much below 400 dollars an ounce again.

"But it would be foolish of us to anticipate our earnings on a price in excess of 350 dollars."

Dr de Kock said the Mexican crisis had focused the attention of delegates to the International Monetary Fund meeting on the fact that the world's monetary scene was grim.

"There have always been some small tin-pot countries which we knew could cause problems, but Mexico is not one of them," he said.

The draconian exchange controls and the nationalising of private banks in Mexico had sent shivers down the spines of the industrial countries. They were asking, Which country will be next? Will it spread?

"It's a tremendous switch of policy, and I can understand why the Governor of the Mexican Reserve Bank resigned," Dr de Kock said.

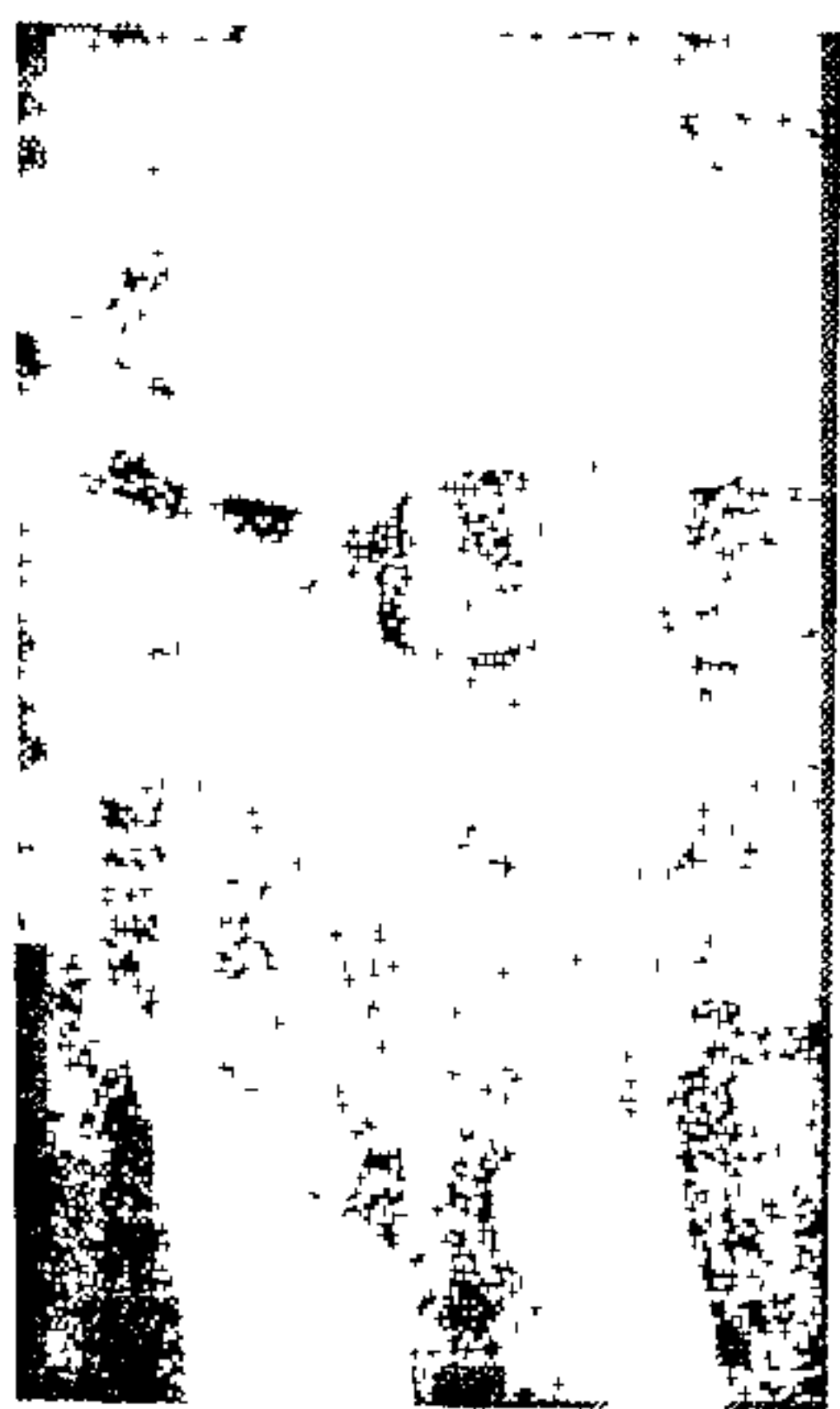
He said that if the gold price held at current levels, South Africa's balance of payments deficit would fall well below R5 000 million.

"I believe our economy has turned the corner — our position has been greatly strengthened."

He said there would be no new gold swaps, and meetings which have been set up with major banks over the next week in Toronto would be purely to "review our relationship."

He said South Africa would support any call for a substantial increase in IMF quotas, but he hinted that the country would stop short of doubling quotas, as called for by developing countries.

Quoting the British Finance Minister, Sir Geoffrey Howe, Dr de Kock said: "You don't solve money problems by throwing money at them."



Dr Gerhard de Kock... warning on gold price optimism.

IMF: The Mexico factor is keynote

THE common wisdom has it that Mexico's brush with bankruptcy will have the salutary effect of spurring the rich nations to get on with the business of enlarging the resources and importance of the International Monetary Fund and other such aid agencies

Nothing could be farther from the truth

Indeed, with the annual joint meeting of the IMF and World Bank in Toronto starting tomorrow, there is an uncomfortable feeling among senior IMF officials and their less-developed-nation constituents that they may have fallen into a trap of their own devising

This Catch-22 situation goes to the very nature of what Fund-lending policies have been all about

In a "worst-case" reading of the situation, the Toronto meeting could end up with the Fund's officials being relegated to a secondary role in the task of keeping the world monetary order stable

For the borrowing nations it could mean the worst of all possible worlds — less money from the lending countries, tougher conditions being demanded of them by the IMF overseers and prevailing market rates on the loans themselves

Although many analysts have watched Mexico's explosive development over the past five years with a wary eye, the speed and totality of its collapse caught commercial banks, diplomats and the economists of the Fund and Bank by surprise

For Fund managing director Jacques de Larosiere, who is so far unopposed for reappointment to another six-year term, the Mexican crisis was especially galling

He had taken pride in slowing the headlong growth of Fund lending commitments set in motion by his predecessor, Johannes Witteveen

Fund resources were to be shepherded until a planned enlargement of quotas (the cash contributions by the 141 member nations) was approved at this upcoming meeting

Instead of reaping just praise for his prudent management, De Larosiere now stands before his peers with Fund resources being at the same time both too large to be in the danger zone and too inadequate to withstand any

future shocks from another Mexico-style inability to meet its commercial bank debt service obligations

For one thing the Mexican crisis did was introduce a whole new dreadnought-size of troubled borrower to the damage control experts of the financial community

No longer do bankers fret nearly as much about the Zaire-class Third World debtor with a paltry \$5 000-million in shaky debts

Now there is Mexico with \$30 000-million in loans and \$18 000-million or so coming due soon, or Argentina with \$35 000-million outstanding and \$15 000-million maturing between now and December

Overshadowing them all is Brazil with \$81 000-million in debts that require a whopping 71%, or \$13 000-million, of its foreign-exchange earnings just to service

Against these potential titanic, the resources of the IMF are clearly inadequate as they stand

The fund has \$68 000-million or so in total quota resources at its command, but really only about \$30 000-million of that is in the readily useable hard currencies of the major industrial and trading nations

The idea behind the proposed eighth quota increase would be to swell the fund coffers from \$68 000-million to \$110 000-million

The hard truth is that the Fund already has committed about \$15 000-million of its useable funds

On the plus side of the ledger the Fund can expect another infusion of new funds between now and 1983 for the so-called Witteveen facility set up some years ago for such as Zaire, Turkey, Peru

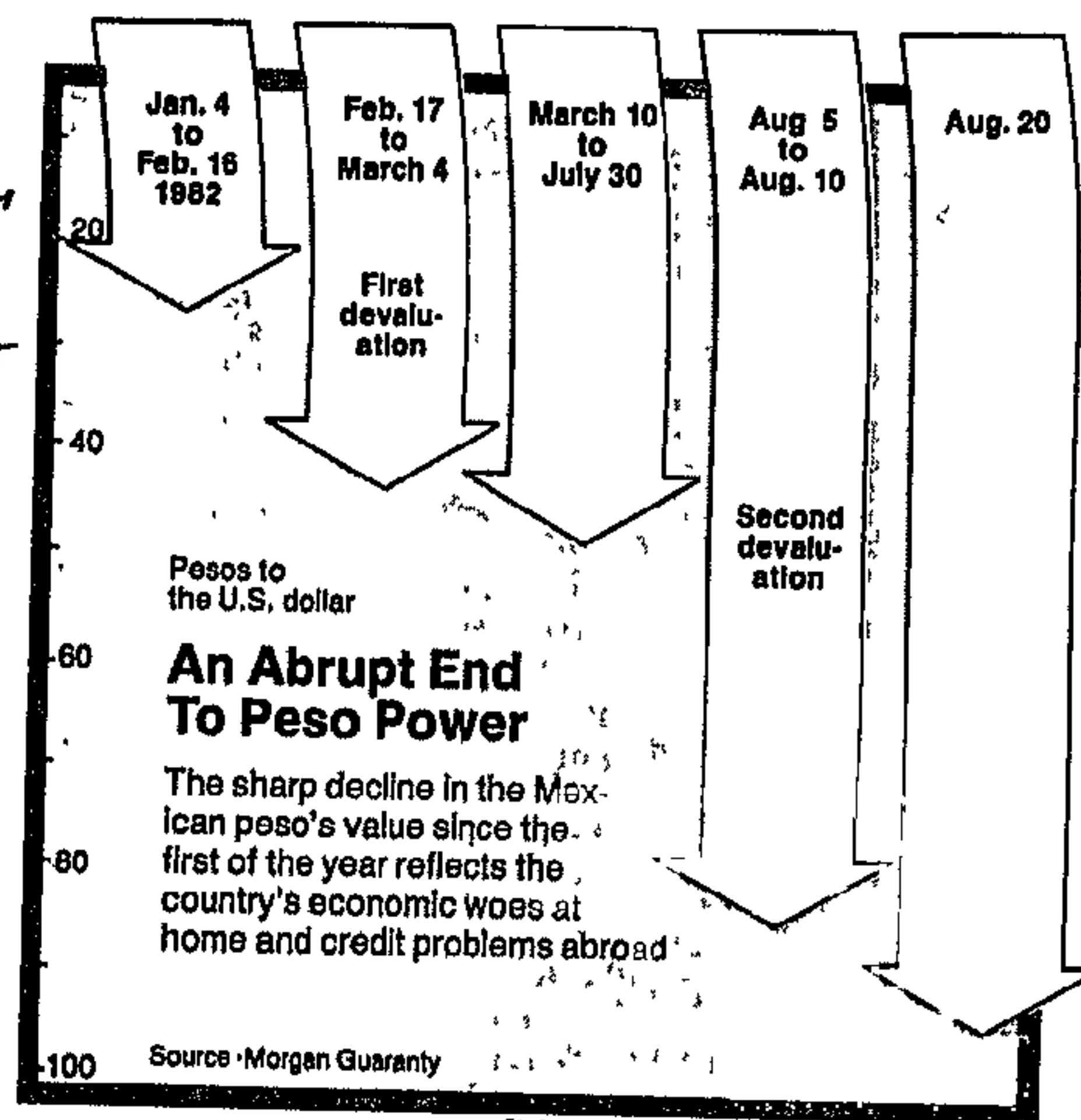
and the imaginable crises of the day

So to the \$15 000-million remaining there could be another \$8 000-million coming from general contributions, \$1 500-million from overdue payments and \$4 000-million from the Saudi Arabian Monetary Authority, which was to be that Opec power's initiation fee for a seat among the major powers at the head table of the Bank and Fund policy boards

But the prospective total of \$21 000-million or so is illusory itself as we shall see

The problem with Fund resource levels is not whether they are adequate to stave off a single nation's short-term problems but whether they are a credible backing for even the medium-term restructuring of even two of the mega-debtors

One piece of good news from Mexico City is that the incoming government of President-elect Miguel de la Madrid (he takes office in De-



By Jim Srodes Washington

U.S. against quota increase

THE Reagan Administration is flatly against any formal IMF quota increase for the obvious reason that it would further erode the US effective veto over World Bank and IMF policy decisions

The White House and Treasury are also reluctant even for the Fund to have greater financial resources at its command

The argument is that when a Mexico-size collapse occurs it takes speed plus the combined commitment of governments, banks and the Fund — not just the Fund — to put together a credible rescue

programme.

One of the remedies which may get a favourable nod from the Reagan negotiators and the other great powers is a much-discussed plan to allow the IMF to issue its own debt obligations in the world bond markets

The World Bank already has an enviable reputation for the \$9 000-million or so of triple A rated bonds it sells on the Euromarket each year

The idea would be that the Fund, with its 100-million-ounce hoard of gold bullion as a potential backing, could easily tape the markets for, say, half that amount with little trouble

The trouble is, however, that the Fund in turn would have to charge those countries which borrow that money the prevailing market rates or become entangled in the complexity of subsidising these rates

ember) has provisionally accepted most of the Fund's reform demands

Most of the price subsidies will be sharply curbed, and rampant tax evasion and prodigal import levels will be shut off

Some major social projects as well as development schemes will be shelved until better times

But Fund officials now concede privately that there really is only one sure cure for Mexico's intermediate and long-term ills — to pump and export more oil and gas from its mammoth reserves. Specifically, to export more oil to the United States

Mexico is already a large supplier to America but not the largest by a long shot

Of its current 3-million barrels-a-day production it exports roughly 1 700-million barrels, and only 500 000 of that goes north of the border

Petroleum-industry analysts are in broad agreement that between now and 1985 Mexico could easily boost these output totals to a 3-million-barrels-a-day export flow, with most of the increment going to US refineries

The increase will be almost immediate. In return for the \$1 000-million quick advance payment Washington included in the rescue package worked out in New York, Mexico is obliged to add an immediate 60 000 barrels a day to its American export flow

By contrast, Saudi Arabia which sells 500 000 barrels a day, would at once be relegated to second place as America's chief import sup-

plier, and the balance of the flow of 1 800-million daily barrels that the US needs to meet its energy requirements would steadily shift away from marginal Opec suppliers such as Nigeria and Venezuela to Mexico

There are broader motivations for this shift than the simple desire of the Reagan Administration to keep Mexico afloat

Mexican hydrocarbons would be much cheaper in whatever form they are bought because they are hundreds, not thousands, of kilometres away

There are gas pipelines already in place on the Texan border and a much-talked-of border-spanning oil line becomes more realistic

Since more than 90% of Mexico's shorter-term foreign debt is dollar-denominated, such a shift is inevitable for financial reasons

Just as important, both Washington and Mexico City see the increased flow of trade across the border as part of a solution to the other problems the two wary neighbours share — immigration, regional political threats and cultural differences

Since the oil to America could easily be sold at much less than the \$34-a-barrel price Opec is trying to maintain, the new energy flow would give the American economy a substantial lift while keeping the Mexican yield high

But it would bring intolerable pressures on Saudi Arabia's efforts to keep the Opec cartel in place

6/9/82 (156) ROM

US congress bid to block SA access to IMF funds

By JOHN MATISONN
Washington Bureau

WASHINGTON — Twenty-three United States congressmen have appealed to the Reagan administration to refuse South Africa access to funds from the International Monetary Fund at the annual IMF meeting which starts in Toronto, Canada today.

The congressmen sent a letter to Mr Donald Regan US Secretary of the Treasury, asking that he instruct the United States' representative at the meeting to oppose any South African request for funds until "South Africa has changed its aggressive foreign policies and its internal policies of racial separatism".

The letter was written by the congressional ad hoc monitoring group on Southern Africa, following a reso-

lution by the United Nations General Assembly calling for a review of the IMF's relations with SA.

Transafrica, the black American foreign policy lobbying organisation, has conducted a campaign in Washington aimed at expulsion of SA from the IMF.

The ad hoc monitoring group wrote to Mr Regan in his capacity as the US governor of the IMF, since South Africa's status in the fund would only come up for review at the request of a governor of the fund.

A US vote in favour of a loan to SA would be contrary to the purposes of the fund because SA has a record of military and economic policies in conflict with the IMF's aims, the congressmen charged.

The purposes of the fund

include the promotion and maintenance of high levels of employment and income.

"The government of South Africa, on the other hand, works consistently for the exploitation and subjugation of the black majority with policies that create massive unemployment and degrading poverty in rural resettlement areas".

Last month Transafrica released a leaked document to the Press in which the US State Department requested that the US Embassy in Pretoria discreetly ask the SA Government whether it intended to ask the IMF for funds.

The document said that the US Embassy should say that it would treat a South African application on its economic merits without introducing political factors.

14/1/83

Vervaardig in Suid Afrika

IMF loan opponents 'compliment' SA

By NEIL BEHRMANN

LONDON — South Africa got a back-handed compliment about its world financial reputation from some of its severest critics in the International Monetary Fund last year.

This arose during the bitter debate over this country's eventually successful application for a R1 240-million IMF loan.

Opponents of the loan in the IMF, led by Saudi Arabia, Libya and other Moslem and/or Third World countries argued that South Africa could borrow what it needed on world financial markets.

It had no right, therefore, they said, to be approaching the IMF.

However, the United States backed IMF staff arguments that South Africa's borrowing potential was very limited and that its foreign debt had grown by 55% in 1981.

Against this Libya, Kuwait and others argued that South Africa's case was unconvincing.

The debt-service ratio, they said, was expected to fall to 7% in 1983, well below other similar countries.

Saudi Arabia said that with

a good credit rating South Africa could borrow on the international capital markets.

All these points appear from the minutes of a crucial board meeting of the IMF.

The minutes of the meeting was obtained by the Anti-Apartheid movement and then confirmed independently by the Financial Times of London.

Although the IMF claims that it acts purely on technical and economic grounds when it decides on loans to countries it is evident that the meeting deciding on the South African loan was dominated by political considerations.

But the argument was technically conducted almost exclusively in economic terms and the word "apartheid" was mentioned only twice. The minutes show, though, how the executive directors from the Third World and Arab states lined themselves against the industrialised nations.

The minutes also underline the awareness of all IMF directors that a country's economic performance cannot be entirely divorced from its political system.

The key concern of the board, according to the Financial Times was the "structural rigidity of the la-

bour market, a direct consequence of legally enforced racial discrimination delaying an economic recovery."

The debate which lasted for most of the day focussed on two broad issues:

- Whether South Africa was truly in need of IMF support
- Whether its proposed economic policies were enough to deserve such support

Although western representatives and fund officials believed South Africa had done enough Third World directors pressed for tougher terms.

When South Africa applied for two loans totalling \$1 100-million they asked the IMF's managing director Mr Jacques de Larosiere to keep total confidentiality — the first time he had received such a request in his four years of office.

Normally IMF directors are informally told of a preparatory IMF mission, and Third World IMF directors were bitter that the IMF had acted with unusual speed and secrecy.

The minutes show that the industrialised countries criticised South Africa's labour policies but favoured the loans.

There was strong disagreement over the gold price used in forecasting South Africa's requirements.

The IMF staff appear to have accepted South Africa's forecast of \$315 in the months ahead (the closing months of 1982. The actual price, of course, went way above South Africa's official expectations).

The day before the November 3 meeting the gold price was \$431 an ounce.

In the debate on the adequacy of South Africa's economic, fiscal and monetary policies, underlying political arguments became clearer.

Third World nations referred to South Africa's heavy defense spending and subsidised loans to the white farming community.

Above all they asked whether the fund should insist on much more radical action to remove artificial barriers to employment, to improve training and job mobility for the black majority.

On "structural adjustment" the directors agreed that there was a need for action, but they differed on whether it should be a condition for the loan.

Mr Bruno de Maulde of France argued that the staff report "lacked a thorough examination of the greatly needed supply action in the labour market."

He called for "a much higher priority" to be given to the relief of bottlenecks.

Mr Mohamed Finaish of

Libya maintained that the labour issue "had never been fully analysed in IMF staff papers even though it dominated South Africa's economic and social development."

It was not simply a matter of more training, but of dismantling the "main constraints of labour mobility resulting from restrictive laws and practices."

Mr Giovanni Lovato of Italy declared that the gold price increase "had given the South African authorities an opportunity to make badly needed structural reforms, but they had sharply increased expenditures, including defense outlays."

Dr Simon Brand, the South African representative to the fund said the government had introduced significant labour reforms.

But he admitted that in 1981, there were 9 232 Whites training as apprentices against only 495 blacks.

In the first six months of 1982 6 129 youths registered as apprentices but only 313 were black.

Third World nations also attacked South Africa for imposing import surcharges and maintaining a dual exchange rate.

No formal vote was taken but during the course of the day the US, Britain and West Germany were joined in supporting the loans by five other country groups.

Those in favour included Canada and seven European states.

South Africa had the support of 22 countries whose weighted vote represented 51.9% of the IMF total.



All answers

Number

Number

Surname

First Name

Date

Degree/Level
you are

Subject
(to be)

Paper No.
(to be)

NOTE C

- 1 The answer must be rough work
- 2 Enter the blue ink you are
- 3 Blue ink must be used for the green emphasis
- 4 Name (e.g. exam)

SOUTH Africa will come under continuing pressure in the International Monetary Fund this year and beyond to remove the various racial barriers to the most efficient use of manpower.

This is clear from a study of the detailed debate by the IMF's executive directors over South Africa's successful application last year for R1 240-million loan facilities

It may well be, in fact, that unless South Africa makes remarkable progress in the training and use of black labour, including promotional opportunities to senior positions, over the next few years the IMF window will eventually be closed to us

A strong majority of the Western powers, who together effectively control the fund, voted in favour of the IMF loan

They believe that the IMF should be essentially non-political and they were not swayed by major efforts within the United Nations and by third world members of the IMF to treat South Africa as a leper case

But this country's critics did not all rely simply on conventional anti-apartheid campaigning for their case

Instead they deliberately tried to challenge the loan in terms of the IMF's own strict economic criteria

They argued that South Africa's economic ills were largely self-inflicted — that racially determined labour policies fuelled inflation and distorted the proper running of the economy generally

Why should South Africa be allowed access to cheap credit from the IMF, they demanded

In doing so, of course, these critics argued in some ways no more than what has been widely urged in South Africa

True, there was a lot of over-simplification in certain cases

After all, when the bottom drops out of the market of a country's overwhelmingly largest export — gold in this case — there is no escaping a crisis

Ask the oil producers, such as Mexico and Nigeria

Mr L A Whittome, European director of the IMF, put the South African economy into better perspective when he reminded the executive directors' meeting that "in the short run... even substantial changes in the labour field would not have a decisive effect on the balance of payments"

There is no way in which changes in labour practices are likely to resolve any immediate economic crises

But even those most important countries in the IMF which backed the South African loan application conceded the argument of the critics that South Africa was under an obligation to correct structural imbalances in the economy arising from labour policy and practice defects

Mr Richard Erb the United States director, said "The (South African) authorities should be encouraged to utilise the country's labour resources effectively, avoid labour supply bottlenecks and expand the pool of skilled labour through appropriate training and education programmes"

Mr John Anson, of Britain, said "If growth is to be maintained in 1983... a greater effort will have to

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered), leave columns (2) and (3) blank

	Internal	External
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30	14	15
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10	10	16

All's not right with SA labour policy at IMF

Howard Preece



Economic Spotlight

haps the most vexed issue of all within the IMF

Third world countries, in particular, see it as some kind of neo-imperialism

But the main Western countries, led by the US, have generally stood firm, arguing that it is pointless to give help without trying to get the source or partial source of the economic difficulties put right

In those circumstances the demands are bound to grow, and may well prove irresistible in time, that the conditions of any loans to South Africa should include racial policies and not simply the more conventional areas such as money supply, government spending, exchange rate policy, import controls and other standard economic headings

South Africa has, I think, a much more compelling reason than this to sweep away restrictions or to make fundamental reforms (including, vitally, in black education) where policy and/or practice obstruct the best use of labour

Unless these measures are taken the country will not be able to achieve the kind of sustained economic growth rates that are potentially there

The IMF might, however, help to concentrate the Cabinet's mind on this issue

be made to increase labour mobility, use more of the available labour resources and enhance the supply of skilled labour through government and government-assisted training programmes

The official report says (my italics) that Mr Anson hoped that labour policy would be surveyed more fully during the next Article 4 consultation and would be addressed directly in any follow-up adjustment programme

Mr Gerhard Laske, of West Germany, said "Given the considerable unemployment among the high and low-skilled portions of the labour force there is a particularly urgent need to intensify training activities"

Mr Bruno de Maulde, of France, said that the IMF staff papers on the background to the South African

application contained a "serious omission"

This was "the lack of a thorough examination of the greatly needed supply action in the labour market"

Italy's Mr Giovanni Lovato said the gold price boom over 1979-80 had given South Africa an "opportunity of make badly needed structural reforms" to overcome widespread shortages of skilled labour

But the chance had not been taken

It can be seen that none of these spokesmen for major Western countries urged that radical changes in South African labour policy be made a contractual condition for IMF assistance

Not this time, that is

But "conditionality" — the right of the IMF to insist on economic policy changes as a condition for giving aid to needy members — is per-

Any dishonesty will render the candidate

the University

Zimbabwe bows to IMF ... and SA will gain

1982 *1986* *S. Tribune*
6/2/83

ZIMBABWE is reluctantly bowing to pressure from the International Monetary Fund to get a much needed R310 million loan. And South Africa has gained most out of this

**HARARE
CORRESPONDENT**

Like a showjumper which consistently baulks at fences, the government is having to realise that unwelcome steps are the only way to qualify for the loan

When 20 percent devaluation was first announced the Treasury blandly said it was revaluing all other currencies, a sleight of hand which might have gone unnoticed at home but did not fool those abroad

This represented only a 16 percent devaluation of the Zimbabwe dollar against the other major currencies. To achieve the equivalent of a 20 percent devaluation, Zimbabwe needed an almost 25 percent revaluation of other currencies

The result was that the depreciation has had to be continued and the Zimbabwe dollar is even lower against the rand than it would have been

The higher gold price which has helped push up the rand but has meant that the American dollar has stagnated to some extent

Bankers in Harare say that the IMF insisted on an effective 20 percent devaluation and this is where the government's whole ploy has backfired

The extra three or four percent slide against the American dollar and the pound had to be matched by an equal move against the rand

Zimbabwe has now dropped 27 percent against South Africa

For the dwindling number of South African visitors this is good news as they now only have to pay R1,10 for each dollar compared with a peak of R1,50 last year

It's not such good news for the Zimbabwe economy as imports are now much more expensive while exports have not not improved all that much

On top of this has come a cutback in government expenditure. The IMF has stipulated that Z\$250 million has to be saved. A complete freeze on new appointments has been imposed on the civil service and all but the most vital of routine expenditure has been stopped

A Treasury notice has spelt out the necessity for this and the upshot is that some departments are very short of staff and unable to do all their work

The private sector has also become a victim through yet another cut in foreign currency allocations, again because of a financial sleight of hand

Finance Minister Dr Chidzero assured businessmen they would get a 20 percent increase in allocations to compensate for devaluation. But to put them back to where they were would also need a 25 percent increase

The country is fast losing the capacity to produce essential equipment to keep the economy running and will probably depend even more on imported equipment if currency allocations are reduced again

South Africa will come under continuing pressures from within the International Monetary Fund (IMF) to remove the various racial barriers to the most efficient use of the country's manpower.

This is clear from a study of the detailed debate by the IMF's executive directors over South Africa's successful application last year for a R1 240-million loan.

It may well be that unless South Africa makes remarkable progress in the training and use of black labour, including promotional opportunities to senior positions, over the next few years the IMF window will eventually be closed to us.

A strong majority of the Western powers, who together effectively control the fund, voted in favour of the IMF loan.

They believe that the IMF should be non-political and they were not swayed by major efforts within the United Nations and by Third World members of the IMF to treat South Africa as a leper.

But this country's critics did not all rely simply on conventional anti-apartheid campaigning for their case. Instead they deliberately tried to challenge the loan in terms of the IMF's own strict economic criteria.

They argued that South Africa's economic ills were largely self-inflicted — that racially-

Will SA ever get another IMF loan?

(136) D. B. 8/2/83

IMF loan?

perhaps the most vexed issue of all within the IMF Third World countries, in particular, see it as some kind of neo-imperialism.

But the main Western countries, led by the US, have generally stood firm, arguing that it is pointless to give help without trying to get the source, or partial source, of the economic difficulties put right.

In those circumstances the demands are bound to grow, and may well prove irresistible in time, that the conditions of any loans to South Africa should include racial policies and not simply the more conventional areas such as money supply, government spending, exchange rate policy, import controls and other standard economic headings.

South Africa, I think, has a much more compelling reason than this to sweep away restrictions and to make fundamental reforms (including black education) where policy and/or practice obstruct the best use of labour.

This is that unless these measures are taken the country will not be able to achieve the kind of sustained economic growth rates that are potentially there. The IMF might help to concentrate the Cabinet's mind on this issue.



South Africa's Minister of Finance, Mr Owen Horwood, addressing the International Monetary Fund — will race barriers in the way of a more efficient use of manpower have to be removed before another loan will be considered?

But even those most important countries in the IMF which backed the South African loan application, conceded the argument of the critics that South Africa was under an obligation to correct structural imbalances in the economy arising from labour policy and practice defects.

Mr Richard Erb, the United States director, said "The (South African) authorities should be encouraged to utilise the country's labour resources effectively, avoid labour supply bottlenecks and expand the pool of skilled labour through appropriate training and education programmes."

Mr John Anson, of Britain, said "If growth is to be maintained (in South Africa) in 1983 a greater effort will have to be made to increase labour mobility, use more of the available labour resources and enhance the supply of skilled labour through government and government-assisted training programmes."

The official report

H O W A R D P R E E C E, in Johannesburg, examines the debate of the International Monetary Fund's executive directors on South Africa's application last year for a R1 240 million loan — and sees warning signals the government would be prudent to note.

Mr Bruno de Maulde of France said that the IMF staff papers on the background to the South African application contained a "serious omission." This was "the lack of a thorough examination of the greatly needed supply action in the labour market."

Mr Giovanni Loyato of Italy said the gold price boom over 1979-80 had given South Africa an "opportunity to make badly needed structural reforms" to overcome widespread shortages of skilled labour. But the chance had not been taken.

Now it can be seen that none of these spokesmen for major Western countries was urging that radical changes in South African labour policy be made a contractual condition for IMF assistance. Not this time, that is.

But "conditionality" — the right of the IMF to insist on economic policy changes as a precondition for giving aid to needy members — is

South Africa, I think, has a much more compelling reason than this to sweep away restrictions and to make fundamental reforms (including black education) where policy and/or practice obstruct the best use of labour.

This is that unless these measures are taken the country will not be able to achieve the kind of sustained economic growth rates that are potentially there. The IMF might help to concentrate the Cabinet's mind on this issue.

Move to deny SA of future IMF loans

130 APR 1983

By Neil Lurssen,

The Star Bureau

WASHINGTON — A Bill aimed at preventing South Africa from obtaining future loans from the International Monetary Fund has been introduced in Congress. Public hearings on the measure start next week.

While not mentioning South Africa by name, the Bill makes it illegal for the US Government to support an application for an IMF loan by any country practicing apartheid.

The Bill was introduced by Congressman Julian Dixon, chairman of the black caucus in the Congress and it has 71 co-sponsors, including Mr Harold Washington, new mayor of Chicago who is also a congressman.

The black caucus led opposition to South Africa's successful application last November for an IMF loan equivalent to \$1 000 million.

Then, the Reagan Administration supported the application on purely economic grounds —

much to the chagrin of critics.

Congressional sources are predicting a stormy passage for the Bill, not only because of the South African connection but because it is likely to be tacked as an amendment to a controversial Bill to raise the US quota in the IMF to \$8 500 million.

This increase is expected to run into trouble in the House of Representatives where many members see it as just a way of rescuing the big banks who lent too much to developing coun-

tries.

The sources say, too, that the Dixon amendment could be expanded to include other countries accused of abusing human rights.

"I would say it has a 50-50 chance of getting through," a congressional aide said yesterday.

Hearings start on Tuesday before the House Banking Subcommittee on International Trade, Investment and Monetary Policy.

Wall Street Journal's findings

Blacks helped SA to secure IMF loan

156 ROOM 6/5/83

LONDON. — Black nations helped South Africa to obtain its controversial R1 260-million loan from the International Monetary Fund last year.

The Wall Street Journal comes to this conclusion after a study of leaked IMF documents and more than 30 hours of interviews with IMF directors, their alternates and staff members.

It says in a front-page feature article "It is a tale in which countries have taken loud public positions and then turned around to do exactly the opposite behind the closed oak doors of the IMF board room."

Almost certainly, South Africa was to get the R1 260-

million, but there was a chance that it might also get a humiliating rebuke along with the money.

There was also speculation that future loans would not be approved unless South Africa equalised job opportunities and reduced military activity in Namibia.

Even though the United Nations General Assembly voted 123 to three with 23 abstentions that the IMF should refrain from making the loan, the key African members of the IMF abstained from voting.

"The implication — drawn by nearly everyone at the IMF — was clearly that abstention really meant approval.

"This applied particularly to the 40 African countries which two weeks earlier had mounted a protest in the UN

about the loan, but now at the IMF, where it counted, had in effect voted for the loan."

Many directors said that the Africans caved in because they believed it was in their governments' interest to keep politics out of the IMF and limit the fund's power to change the laws of borrowing countries.

One European director of the IMF said "If it ever came down to what country you like and what country you don't, Zaire and some of the others might not fare very well."

The outcome of the loan issue depended on two men — Guinea's Mr n'Faly Sangare and Niger's, Mr Abderrabmane Alfidja, who between them represented 40 African countries. They could, with a strong stand,

have compelled other board members to respect their racial feelings.

On November 2, the day before the IMF board meeting, Mr Sangare and Mr Alfidja, pushed for a postponement of the vote on the grounds that they had not received instructions from all 40 countries which they represented. One Moslem director sensed, however, that they "were getting cold feet."

Mr Alfidja, representing 23 mostly French-speaking black African countries, dropped a bombshell. He said a delay was so vital that if it were not granted, he would have to abstain from expressing an opinion on the loan.

The Wall Street Journal says this meant in effect "that the African governments, after breast-beating against apartheid on the world stage, had waived their right to object to the loan."

According to the meeting's minutes, Mr Alfidja went further, and "fully understood and supported" a statement of IMF managing director, Mr Jacques de Larosiere, that the South African loan should be judged on routine economic grounds, not racial policy.

Mr Sangare, who represented the 17 English-speaking black African nations, took a similar stance. He would not argue or vote on the loan.

Once the African countries "had given the game away", the undecided votes were settled.

The Norwegian director had an anti-South African speech in his pocket, but left it there and abstained.

But representatives from Saudi Arabia, Libya, Iran, Sri Lanka and China were furious. Even angrier was Mr El Mtel, a Tanzanian, who had arrived to become Mr Sangare's alternate director for the English-speaking African bloc.

It was his first day at work and he had to enter the IMF building through crowds of demonstrators who were picketing against the loan. He was shocked and ashamed about Mr Sangare's stance.

Later, the two spent several hours quarrelling.



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Row over detention

Own Correspondent

JOHANNESBURG — A row has developed over the disappearance of a trade union official who was apparently arrested in Queenstown, outside Ciskei, on Monday but is now in detention in Ciskei

Eye-witnesses say Mr Dlaki Vani, of the Cape-based African Food and Canning Workers' Union, was taken from a house in Mlungisi township, Queenstown, which is some distance from Ciskei, on Monday afternoon by men the union alleges were South African policemen

The union claims the events can "only mean" that Mr Vani was handed to Ciskei police by South African authorities, and has demanded an explanation on how Mr Vani came to be in Ciskei police custody

Move to block IMF loans to SA

From SIMON BARBER

WASHINGTON — A United States Congressional sub-committee on banking yesterday adopted an amendment that could effectively deny South Africa future access to the International Monetary Fund (IMF)

The measure, which represents a blow to the Reagan administration, goes before the full committee on banking, finance and urban affairs on Monday, where its acceptance seems assured

The amendment is a modified version of one offered on Tuesday by Republican Mr Julian Dixon, a member of the Congressional black caucus

It orders the US representative on the IMF board of directors to reject loan applications by "any country that practices apartheid"

Under the IMF's

weighted voting system, the US holds 20 percent of the fund's votes and has a powerful influence over the decisions of its Western partners

Had the Reagan administration decided to oppose South Africa's R1.4-billion loan request last November, it would have been overwhelmingly rejected

The amendment is attached to the administration's controversial request for the US contribution to the IMF to be increased to R8.7-billion to help meet a growing loan demand from Third World countries

Two senior officials, US fund executive director Mr Richard Erb and the Assistant Secretary of Treasury Mr Marc Leland, appeared before the sub-committee yesterday to plead against the rider, which they claimed would "politicize" the IMF

Teachers 'betrayed'

Staff Reporter

THOUSANDS of teachers had been betrayed by the government because it had led them to believe a fairer educational deal would emerge from the De Lange Report, the provincial spokesman on education, Mr Jan van Eck, said yesterday

He was reacting to a statement by the Minister of National Education, Dr Gerrit Viljoen, that the De Lange Commission's call for a single education ministry "was open to two contradictory interpretations"

Mr Van Eck claimed the government had "purposefully" left Cape educational leaders under the impression that they were "seriously considering" the more liberal interpretation of the recommendations

"But now teachers' hopes have been dashed," he said "The government has decided to keep its sticky political finger in education"

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Robbers get R6 000

Crime Reporter

MORE than R6 000 was stolen in three robberies in the Peninsula yesterday

About 9 20am when Miss Surina Abduragman, 18, was in an office on the fourth floor of the Golden Acre, a man walked in and said he had a gun in a bag He threatened her and took a bag containing R4 000

Captain Gerhard van Rooyen, a police liaison officer for the Western Cape, said a northern-areas woman was alone in her home about 10 30am when a man came into the house through a back door

The 47-year-old woman was threatened with a firearm and robbed of a gun, jewellery and cash He declined to identify the woman

About noon yesterday, an employee of Crown Furnishers was walking to a bank in Main Road, Wynberg, when he was robbed of R2 631

Captain Van Rooyen said Mr George Rexheath was in the street when he was tapped on the shoulder He turned around and pepper was thrown in his face

His assailants made off with a bag containing the money

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US move on IMF — a

Co-sponsors

Proposed by Mr Julian Dixon, a liberal Democrat from California and chairman of the 21-member congressional black caucus, the legislation has attracted 90 co-sponsors

It came before the House Banking, Finance and Urban Affairs Committee's sub-committee on international trade, investment and monetary policy in the form of an amendment to the Administration-supported Bill to increase America's funding to the IMF by \$8 400-million

Mr Dixon's amendment required the United States Government to oppose "the furnishing of assistance by the IMF to any country which practises apartheid"

Debate

At the sub-committee hearing yesterday, the Dixon Amendment was accepted by nine votes to eight

Now it goes to the full committee where observers believe it will receive further endorsement. This means it is headed for debate on the floor of the House of Representatives

ARGUS
6/5/83
156
337
280
jolt for SA

Argus Foreign Service

WASHINGTON. — A congressional sub-committee has passed legislation that could prevent South Africa from ever again getting an International Monetary Fund loan — unless it abandoned apartheid.

While the legislation is a long, long way from the statute book, it is the second congressional jolt to the South African Government this week

On Tuesday, the House Committee on Foreign Affairs endorsed an amendment to the State Department Authorisation Bill that would make fair employment practices mandatory for American corporations operating in South Africa, prohibit the sale of South African gold coins in the United States and ban new bank loans to the South African Government or its agencies

US move to stop SA from

getting monetary fund loans

The Natal Mercury, Pi



WASHINGTON—A House Banking/ Subcommittee yesterday adopted an amendment that could effectively deny South Africa future access to the International Monetary Fund.

The measure, which represents a damaging blow to the Reagan Administration, goes before the full Committee on Banking, Finance and Urban Affairs on Monday, where its acceptance currently seems assured.

The amendment is a modified version of one offered on Tuesday by Representative Julian Dixon, a member of the congressional black caucus.

It orders the U S representative on the IMF board of directors to reject all loan applications by 'any country that practises apartheid'.

NATAL

Under the IMF's weighted voting system, the U S holds 20 percent of the fund's votes and has a powerful influence over the decisions of its Western partners.

The amendment is attached to the Administration's highly controversial request for the U S IMF contribution to be increased to R9 billion to help meet a growing loan demand from undeveloped countries with enormous debt problems.

156 *News* 6/7/83
Simon Barber

Two senior officials, U S fund executive director Richard Erb and Assistant Secretary of Treasury Marc Leland appeared before the sub-committee yesterday to plead against the rider which they claimed would politicise the IMF.

Political

Mr Erb insisted that the U S had voted for South Africa's request for loans under the fund's compulsory financing and standby facilities 'solely on economic and balance of payment grounds'.

Mr Leland argued that the rider would encourage other fund members to vote against each other on political grounds.

He predicted there would be attempts by Arab nations to block loans to Israel.

'We must hold the line,' he said.

The official claimed that even African members of the fund would be opposed to the measure, fearing that similar treatment might then be accorded them.

He cited a report in the Wall Street Journal that during the debate on South Africa's application, African representatives had abstained.

1979	493
1980	550

Telephone:

Concern

The article quoted a European director as explaining 'if it ever came down to what country you like and what country you don't, Zaïre and some others might not fare very well'.

Supporters of the measure, mostly Democrats, countered that the rider was not political, but reflected concern that apartheid so distorted South Africa's economy as to make it ineligible for IMF support.

Sub-committee chairman Stephen Neal, an Iowa Democrat, who sympathises with the Administration position, offered a compromise amendment that would merely have required the U S fund director to take the economic effects of apartheid into account in judging future South African applications.

This was defeated by a 9 to 8 vote.

Founded: 1965

Industrial Council: Baking and/or Confectionery Industry (Durban and districts)

Registration: Yes

1982 Disaffiliates from TUCSA

- (1) 1938 Natal Bakers' and Confectioners' Union formed.
- 1940s - The National Baking Industrial Union was established, operated in Natal, Port Elizabeth and Pretoria.
- 1965 - The National Baking Industrial Union broke up and formed the Natal Baking Industry Employees Union.

group

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Blacks helped SA to secure IMF loan

By NEIL BEHRMANN

LONDON — Ironical it may seem, but black nations helped South Africa receive its controversial \$1 100m loan from the International Monetary Fund (IMF) last year.

The Wall Street Journal comes to this conclusion, after a study of leaked IMF documents and more than 30 hours of interviews with IMF directors, their alternates and staff members.

It says in a front page feature article, "it is a tale in which countries have taken loud public positions and then turned around to do exactly the opposite behind the closed oak doors of the IMF board room."

Almost certainly, South Africa was to get the \$1 100m, but there was a chance that it might also get a humiliating rebuke along with the money.

Job opportunities

There was also speculation that future loans would not be approved unless South Africa equalized job opportunities and reduced military activity in Namibia.

Even though the United Nations General Assembly voted 123 to three with 23 abstentions that the IMF should refrain from making the loan, the key African members of the IMF abstained from voting on the issue.

"The implication — drawn by nearly everyone at the IMF — was clearly that abstention really meant approval."

"This applied particularly to the 40 African countries which two weeks earlier had mounted

a protest in the UN about the loan, but now at the IMF, where it counted, had in effect voted for the loan."

Many directors said that the Africans caved in because they believed that it was in their governments' interest to keep politics out of the IMF and limit the fund's power to change the laws of borrowing countries.

One European director said, "if it ever came down to what country you like and what country you don't, Zaire and some of the others might not fare very well."

Strong stand

The outcome of the loan issue basically depended on two men, Guinea's Mr n'Faly Sangare and Niger's Abderrabmane Alfidja, who between them represented 40 African countries. They could with a strong stand, compel fellow board members to respect their racial feelings.

On November 2, the day before the IMF board meeting, Mr Sangare and Mr Alfidja, pushed for a postponement of the vote on the grounds that they had not received instructions from all 40 countries which they represented.

One Moslem director sensed, however, that they "were getting cold feet."

Bombshell

Mr Alfidja of Niger, representing 23 mostly French-speaking black African countries, dropped a bombshell. He said a delay was so vital that if it was not granted, he would have to abstain from expressing an opinion on the loan.

This meant in effect, "that the African governments, after breast-beating against apartheid on the world stage, had waived their right to object to the loan."

According to the meeting's minutes, Mr Alfidja went further and "fully understood and supported" a recent statement of IMF managing director, Mr Jacques de Larosiere, that the South African loan should be judged on routine economic grounds, not racial policy.

Mr Sangare of Guinea, who represented the 17-member English-speaking black African bloc, took the same stance. He would not argue or vote on the loan.

Abstained

Once the African countries "had given the game away", the swing votes were settled. A Norwegian director who had an anti-South African speech in his pocket but left it there and abstained.

But representatives from Saudi Arabia, Libya, Iran, Sri Lanka and China were furious. Even angrier, was Mr El Mtei, a Tanzanian, who had arrived to become Mr Sangare's alternative director for the English-speaking black African bloc.

It was his first day at work and he had to enter the IMF building through crowds of demonstrators who were picketing against the loan. He was shocked and "ashamed" about Mr Sangare's stance.

Later, the two spent several hours quarreling.

Year	African	Asian and Coloured	White	Total	Membership
1970	..	..	..	600	Ø
1971	..	..	..	600	Ø
1972	..	..	..	600	Ø
1973	..	380	160	540	+
1974	..	..	..	530	Ø
1975	..	377	208	585	×

Black Caucus bid to deny SA IMF loans

Argus Foreign
Service

WASHINGTON — Members of a powerful congressional committee have endorsed a Black Caucus amendment that could block future IMF loans to South Africa

Last week members of the sub-committee on international trade, investment and monetary policy tagged the amendment to the Bill to increase America's funding of the IMF by another \$8 400-million

The amendment requires the United States representative on the IMF to oppose "the furnishing of assistance by the IMF to any country which practises apartheid"

DIXON AMENDMENT

It was proposed by Representative Julian Dixon, a liberal Democrat from California and

chairman of the Congressional Black Caucus

When the Bill reached the full House banking, finance and urban affairs committee, the committee accepted the Bill, including the Dixon Amendment

However, the Bill is a long way from the American statute books

COMPROMISE

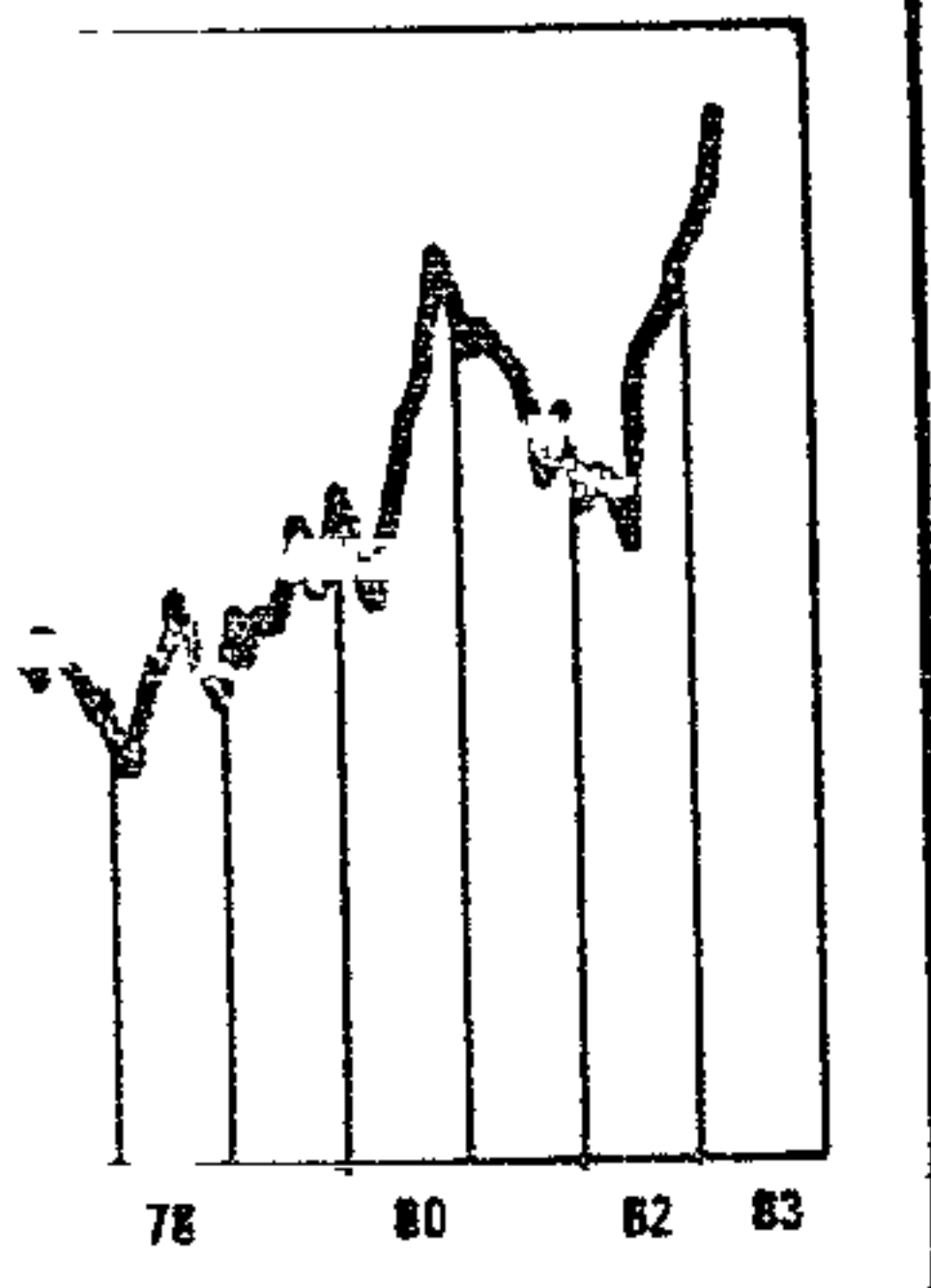
The Senate is considering a similar measure and the two versions of the Bill will go to a conference of representatives of the Senate and the House of Representatives where a compromise Bill will be thrashed out

If the Dixon Amendment becomes law, the American representative, who controls almost 20 percent of the vote in the IMF, would have to vote against a South African loan application

Argus
10/5/83
156

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P Composite



ight monetary policy has done present high interest rates in the danger. But the US economy that proviso, high interest rates dents of change

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ny is firing on all cylinders, of the markets, causing prices pattern — the arrival of a dis-down. But it won't, happen for

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gets it broadly right, and gradual with low inflation, interest rates concert

ctors Chronicle says it sides with om due in US equities, probably who treat that correction as a the benefit of a second leg to a year or beyond

IMF rules forbid political prejudice

DAVID BRAUN summarises a report by senior consultant Sir Joseph Gold in the latest IMF survey. The point is made that political considerations are prohibited by the fund's articles when the question of loans to member countries is considered. The report follows moves by Third World countries to get South Africa expelled from the fund and recent US Congress moves to tie increased IMF contributions to the blocking of further loans to South Africa.

Unlike many other international organisations, the International Monetary Fund is governed by rigid rules which do not allow it to be influenced by the domestic, social or political policies of members.

The fund has received no mandate from members to conduct surveillance over their choice of governments and, while it is undeniable that a transaction may strengthen the position of a government, the logical conclusion cannot be drawn that the fund's decisions are, and should be, based on political considerations.

The fund's moral cause is to promote universal prosperity and the organs of the fund, unlike the organs of some other international organisations, have not been granted the power to amend the treaty that governs the fund.

Members require high majorities to change rules by which they have undertaken to be governed.

Since the creation of the fund, article 1 of its Articles of Agreement has restrained it from objecting to the domestic social or political policies of members.

The last sentence of article 1 in the original articles forbade the fund from taking political considerations into account, by

requiring it to be guided "in all its decisions" by the purposes set forth in article 1.

The reference to all decisions was sweeping but, even so, the membership increased the emphasis when the opportunity arose by expanding the language in the First Amendment of the articles to apply to "policies" as well as "decisions".

The language was enlarged to give members the strongest possible assurance that the IMF would not follow policies incompatible with the articles under the pretext that the policies were not formulated as general decisions.

The last sentence in article 1 is more than a direction to guide IMF policies and decisions. It also helps resolve the difficulty of distinguishing the categories of "domestic", "social" and "political" policies from the economic category.

Domestic policies are "social" or "political" if they do not fall within the scope of the purposes of the fund as set out in article 1, and the fund may not base its decisions on political considerations of this character.

It is then appropriate for the fund not to object to the members' social or political policies, but to take cognisance of their economic consequences and



their impact on IMF decisions.

For this reason, the fund's decision of March 2, 1979 on the use of resources and stand-by arrangements instructs the fund that, in helping members devise adjustment programmes, the fund shall "pay due regard" to the domestic, social and political objectives of members.

The articles state that a member is entitled to engage in transactions if it meets four conditions:

- The member needs resources
- Use of the fund's resources would be in accordance with the provision of the articles
- The fund has not declared the member ineligible to use the fund's resources
- A waiver is not necessary because of the total outstanding use that the member would be making if its request were met.

A member can be declared ineligible only if the fund makes a finding of improper use under one or the other of two provisions of the articles or if the fund decides that the member is failing to fulfil an obligation under the articles.

If a member meets all four conditions, there is no way in which its request to use the fund's resources can be denied consistently with the articles.

Total, Rowen join to form new solar energy company

By Stan Kennedy

Total SA and Rowen SA have joined forces to form a new company, Total Rowen Sun Systems.

It will manufacture and distribute solar energy products throughout South Africa.

Directors are chairman Mr B J P Lafitte, Mr A M H Rose-Innes, Mr J D du Preez and Mr R S Broadley. Shareholding is on a 50-50 basis between the companies. Rowen is a subsidiary of the

energy industry.

The new company will initially market integral solar heaters, which combine a storage facility and collector area in one unit. These are also compact and do not detract from the aesthetic appearance of buildings.

They may be connected to any hot water geyser and the panels may be positioned on any level in relation to the geyser. They may be used in low-cost housing, on

1970s that industry took up the idea.

The institute pioneered a core housing scheme and insisted on solar heating. Rowen, looking to product diversification, tendered and won the contract and then entered the solar energy field.

"Although the use of solar energy for heating is a relatively new concept in South Africa, giant strides have been made in other countries," says Mr B Scribante, Total's commercial relations man.



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...out if the talks break down irretrievably

A second hopeful sign for the 40 countries buying the BBC film service being watched by 'hundreds of millions' of people worldwide, according to the BBC, is that the BBC has prepared a contingency plan whereby management engineers would keep the cameras rolling if union technicians go on strike

The BBC would not confirm the existence of a specific contingency plan to keep Wimbledon on the box but a spokesman said

"Of course there are always contingency plans, but I would not want to say anything that could be misinterpreted and prejudice the current negotiations"

The management-union row blew up earlier this year over a decision by the BBC to tighten up on expense allowances — particularly the system of allowing technicians working away from home to claim set overnight "bed and breakfast" allowances without producing receipts

Player power has become so great in tennis that the Wimbledon committee has had to insure itself against being sued by stars like John McEnroe if they are disqualified this year

A television report claimed the committee had paid a premium of R51 000 for coverage of nearly R4-million

Committee chairman Sir Brian Burnett agreed they had changed insurance policies to "take account of changing times and practices" He would not give further details

● Editorial Comment
— Page 6

266 HOUSES FOR
SALE IN TODAY'S
MIDWEEK
HOMEFINDER
Pages 15 — 18

A look at those on the move

INSIDE today's Mail is a four-page Tracks & Transportation pull-out, giving interesting and up-to-date news on the transport industry There is all the latest on ITEC, Dr Welgemoed speaks out, what's happening with truck rentals, and a colourful look at Kenworths

Breakfast Quip



"You get the rest of the protective gear when you make the grade"

Pretoria promises early repayment of IMF loan

By SIMON BARBER

WASHINGTON — South Africa is offering early repayment on its controversial R1 200 million International Monetary Fund loan it was revealed in Washington yesterday

Pretoria's fund representative, Mr Dion Brand, announced the decision at a meeting of the IMF executive board on Monday

He said the payments would be made ahead of schedule because of South Africa's improved balance of payments position

The loan, which was approved last November, was denounced by anti-apartheid activists and triggered congressional action to prevent further South African access to fund facilities

Details of Monday's board meeting were leaked to the Centre for International Policy, a liberal lobbying group with close ties to critics of South Africa within the fund, and confirmed in off-the-record interviews with IMF officials

The loan comprises a one-year standby credit of about R480-million and about R720-million from the fund's compensatory financing facility, which is designed to help countries weather temporary declines in export

earnings

It is understood that payment, which normally would not have been due for four years, will begin by the end of this year

Mr Brand's announcement followed a recent IMF staff mission to South Africa

Without specifically mentioning apartheid, the mission's confidential report is said to have pointed out economic inefficiencies arising from labour market bottlenecks due to South Africa's racial policies

Critics argue that such "structural problems" make South Africa ineligible for assistance under the fund's rules for use of the compensatory financing facility

The US fund representative, Mr Richard Erb, supported Pretoria's loan request on the grounds that it met IMF criteria, but has since urged South Africa to repay as soon as its balance of payments problems, caused by a slump in the price of gold, are resolved

He is understood to have welcomed Monday's announcement

HOWARD PREECE, the Mail's Financial Editor, reports that Dr Gerhard de Kock, the Governor of the Reserve Bank, confirmed in Pretoria last night that South

Africa had told the IMF it did not expect to take up the balance of its IMF facility

In November last year South Africa drew R900-million from the IMF and could technically have drawn another R300-million-plus

Dr De Kock also said that South Africa had told the IMF it would repay at least some of the loan ahead of schedule — provided that the country's balance of payments continued in the present healthy state

However should the payments position change again for the worse South Africa could always draw funds back again from the IMF

Over the past 10 months the country's net gold and foreign exchange reserves have improved by about R2 500-million

This has been partly due to the strong gold price in the first quarter of this year and partly because imports have been sharply hit by the recession

Gold has weakened recently but there are certainly no balance of payments problems at this stage

The gold price in London yesterday afternoon was \$414.75 compared with \$415.25 in the morning and \$415.75 at the second fixing on Monday

smoke can arrive in Cape Town in 2 hours

Smoke blows from Koeberg to Cape Town Light ash carried by the wind was found on the Foreshore as well

patterns of the area make it unlikely that radiation from the worst possible accident at Koeberg would stay within a 16km radius," Dr Coogan reported

Tracer elements released at Koeberg were collected at Green Point, confirming the air flow

Weather surveys showed

that the wind conditions enabling the smoke to reach the city before dispersing, prevail 15% of the time

Dr Coogan showed the photograph to the Atomic Energy Agency of the United Nations in Vienna three weeks ago when he and other officials went overseas to inves-

tigate nuclear safety and its civil defence implications

Dr Coogan said the agency officials were surprised and impressed by the photograph

No alternative emergency plan has yet been released but the Atomic Energy Corporation has noted the objection and "a more comprehensive and demonstrable plan

will hopefully ensue from the objection," the report said

A proposal put to the city council to monitor radiation in the municipal area resulted in a monitoring system being installed in March last year

Six monitors, each at a different site, have recorded ra-

diation levels that remain "remarkably steady" at each site The present levels are between 12 and 20 microrads per hour

"Any variation in these readings after the commissioning of the Koeberg Nuclear Power Station will be immediately obvious," the report said

Pecking

Apartheid is bad for business, says IMF

(156) ROM 27/7/83

By SIMON BARBER

WASHINGTON — Apartheid is a major obstacle to South Africa's economic growth, according to a confidential International Monetary Fund staff report.

The study, prepared by a team of IMF economists who visited Pretoria in February and March, was requested by several fund directors at a November 3 board meeting last year when South Africa's R1 220-million loan request was approved.

Its disclosure coincides with a bitter congressional debate over a Bill to increase the US contribution to the fund which contains an amendment barring South Africa from future access to IMF facilities.

The report, dated May 19, does not specifically mention apartheid, but states "labour market regulations in South Africa are clearly not consistent with the realisation of the country's full growth potential".

It notes that "without substantial changes in policy" shortages of skilled manpower will keep South Africa's growth rate below the 5% level required to keep unemployment from rising.

The team found that "substantial improvements (have) been made in allowing black workers full unions rights" and that job reservation laws had been "virtually eliminated".

Despite these changes, the economists said, "the discrepancy in the distribution of skills is likely to persist over the long run", largely through the lack of adequate black education and vocational training.

The report quoted a 1980 finding by the Institute of Race Relations putting the Government spending ratio between white and black children at 13 to 1.

Another major problem was "the significant restrictions on the geographical mobility of labour", an apparent reference to the

pass laws and the homelands policy, "which create inflationary pressures in labour shortage areas, while adding to unemployment in labour surplus areas".

"The system of short-term migrant labour contracts encouraged by these restrictions leads to high labour turnover and acts as a disincentive to investment in on-the-job training."

"These restrictions are maintained despite widespread official acknowledgement of the persistent shortages of skilled labour and their inconsistency with the general free market thrust of the economy."

"It is essential that the impediments and restrictions governing the labour market be eased and that the allocations of government expenditure to certain areas of education and manpower training be stepped up sharply."

These findings were based on discussions with Minister of Finance Owen Horwood, Governor of the Reserve Bank Dr G de Kock and other officials.

The report was leaked to the Centre for International Policy, a liberal lobbying group pushing for an South African amendment to the IMF Quota Increase Bill.

Should the amendment become law, South Africa would almost certainly be denied further use of fund facilities because the US, which holds 20% of the executive board's voting power, has an effective veto.

The Reagan Administration wants the quota increase badly. Liberal congressmen, including the 19-member black caucus, have made it clear they will only vote for it if it contains the South African rider.

Even if the amendment ultimately fails when House and Senate representatives meet to iron out their differences (the Senate's version of the Bill contains no rider), the report is certain to influence deliberations on the IMF executive should South Africa apply for another loan.

Dog saves owner from buck

GEORGE — A dog saved its seriously wounded owner from a buck when the buck bit down on the owner's leg.

Cape Times 156
Thursday, July 28, 1983

Apartheid 'bad for growth'

From SIMON BARBER
WASHINGTON —

Apartheid is a major obstacle to South Africa's economic growth, according to a confidential International Monetary Fund report.

The study, prepared by a team of IMF economists who visited Pretoria in February and March, was requested by several fund directors at a board meeting in November, 1982, during which South Africa's 1,1-billion-dollar loan request was approved.

Bitter debate

Its disclosure coincides with a bitter United States Congress debate over a bill to increase the US contribution to the fund, which contains an amendment effectively barring South Africa from future access to IMF facilities.

The report, dated May 19, does not specifically mention apartheid, but states that "labour market regulations in South Africa are clearly not consistent with the realization of the country's full growth potential".

It notes that "without substantial changes in policy", shortages of skilled manpower will lead to increased labour costs and keep South Africa's growth rate below the 5 percent level "required to keep unemployment from rising".

The team found that

"substantial improvements" had been made in "allowing black workers full union rights" and that job-reservation laws — "legal impediments to vertical labour mobility" — had been "virtually eliminated".

However, the economists said, "the discrepancy in the distribution of skills is likely to persist over the long run", largely through the lack of adequate black education.

They quoted a 1980 survey by the SA Institute of Race Relations which put the government spending ratio between white and black children at 13 to 1.

Another problem was "the significant restrictions on the geographical mobility of labour".

Restrictions

"These restrictions are maintained despite widespread official acknowledgement of the persistent shortages of skilled labour.

"In the view of the staff, therefore, in order to avoid serious imbalances in the economy over the medium term, it is essential that the restrictions governing the labour market be eased and that the allocations of government expenditure to certain areas of education and manpower training, that to date have been inadequately funded, be stepped up sharply."

IMF loans to SA face new threat

156 237
RDM 20/7/83

By SIMON BARBER

WASHINGTON. — In a pair of key votes, Congress signalled yesterday that it will approve an effective ban on further International Monetary Fund loans to South Africa

The measure is embedded in a deeply controversial Bill to increase the US contribution to the fund by \$8400-million and was not debated. However, passage of the full Bill is now a certainty following the defeat, by a 226 to 178 margin, of an amendment that would have killed it outright and the overwhelming 332-76 adoption of a compromise formulation still containing the South Africa language.

While the Reagan Administration opposes the move against South Africa on the grounds that it would "politicise" the IMF, officials have had their hands full pressing for the contribution increase, which they regard as essential to the safeguarding of the international banking system

should a debtor country default.

Conservatives have fought it, calling it a "bail-out" for banks that have made imprudent loans to countries. Liberals have insisted the money would be better spent on domestic social programmes.

The South Africa amendment, drafted by Mr Jerry Patterson, a California Democrat, requires the US director on the fund's executive board to oppose any future South African loan request

Since the US holds about 20% of the board's votes, this amounts to a virtual ban. The administration is hoping that the rider will be knocked out when the House and Senate go into conference to work out their differences on the full Bill

The Senate version does not mention South Africa.

The case against South Africa rests on the contention that apartheid so distorts the Republic's economy as to make it ineligible for fund assistance

IMF REPORT ON SA

Careful who casts the first stone

The significance of the International Monetary Fund (IMF) staff report on SA lies not in what it says — accurate though it undoubtedly is. Any moderately well-informed observer would come to the same conclusions. It is how it is being used that is disturbing.

You don't have to be perspicacious to conclude that ideological meddling with the labour market, through influx control and inadequate educational and vocational training for blacks, are constraints on the functioning of the economy.

The IMF has examined the policies of many countries and has had far rougher words for a fair number — among them some of SA's harshest critics, such as Zambia and Tanzania.

But this particular report was leaked to a leftwing

pressure group, the Centre for International Policy, and is being used to promote a US Congressional Bill on increased quotas to the Fund. If accepted, a side-effect of the Bill will bind the US to voting against future IMF facilities for SA.

Of course, SA should put its house in order. But, equally, if the US is going to play politics with the instruments of international monetary order, it must be done even-handedly. If Congress wishes to bar IMF facilities to SA because it dislikes Pretoria's policies, that is its prerogative. But to be fair and consistent, it should do the same to other lands where repugnant ideologies interfere with economic well-being. If it did so, about half the members of the IMF would feel the wrath and the consequences for them would be far more serious than for us. The precedent being set is awesome.

(156) 02PM 11/8/83

Reagan set to sacrifice anything for aid to IMF

By SIMON BARBER
WASHINGTON. — The Reagan Administration is conceding that an amendment effectively barring South Africa from access to International Monetary Fund loans will become law.

The measure, which is the strongest stand against apartheid ever taken by Congress, is part of a Bill increasing the US contribution to the IMF by \$8400-million.

The quota increase is a major Administration goal, but is deeply unpopular among both liberals and conservatives in Congress.

The only reason it squeaked through the House by a 217 to 211 vote, Administration sources believe, is because it was sweetened by a series of amendments like the one against South Africa.

Another, similar, rider calls for the US to oppose IMF loans to "communist dictatorships" and it is also expected to survive.

The next step in the legislative process is a House-Senate conference at which lawmakers from both bodies will thrash out the differences between their IMF Bills.

The resulting compromise will then have to be formally accepted by the two chambers. White House officials

believe the compromise will only get through the House if it still contains the SA and communist dictatorship language.

As one put it "It looks like we're going to have to swallow those."

The Treasury, the Federal Reserve Board and the State Department are all concerned that the amendments will further politicise the fund and will set a dangerous precedent.

However, as SA's critics in Congress are well aware, the Administration puts a far higher premium on getting the quota increase, which it sees as vital in safeguarding the international banking system should a debtor nation threaten to default.

A similar imbroglio is developing over the Export Administration Act, which empowers the Administration to place controls on US exports to protect national security, but which in the version before the House contains harsh anti-SA amendments.

These include a ban on US bank loans to the SA Government, mandatory adoption of the Sullivan principles by US subsidiaries in SA under threat of legal penalties and a ban on Krugerrand imports.

Tight controls on exports to SA, relaxed by the Reagan Administration, would also be reimposed.

The Administration's last hope for killing the IMF bill's SA rider is that there will be hard lobbying by the rest of Africa.

Fund sources indicate that many African members are worried about similar actions against themselves.

The most optimistic prognosis is that the compromise, instead of requiring the US director on the fund's executive board to vote against SA, will merely call for SA requests to be studied more closely in the light of the IMF's finding that apartheid is a serious brake on SA's economic growth.

Officials believe the

amendment is the direct result of SA's successful \$100-million loan request last year, and say that even if it is watered down, the US fund director will have to take domestic politics into account should SA apply again.

Furthermore, the fund would almost certainly place far tighter restrictions and conditions on SA borrowing.

One thing is clear, however. The Administration does not intend to let the SA issue stand in the way of its broader goals, and President Reagan will sign Bills containing anti-SA riders if that's what it takes to achieve those goals.

The IMF new colonial master in Africa

156
18/2/83

There are fears that the debt crisis is already undermining hard won independence in many States, reports Richard Hall of The Observer

Nigeria, the most powerful state in black Africa, has been having its general election. But around the end of this month, as soon as the drawn-out federal voting process is over, a small group of men in Washington will lay down the rules for the country's immediate future.

These are likely to affect the daily lives of the 100 million Nigerians far more than all the electioneering promises of the politicians.

The submission of Nigeria to the orthodoxies of the International Monetary Fund would not have been held off for so long, but for the general election. Its economy is in critical disarray, even though debts of around R10 000 million look modest beside the vertigo-inducing commitments of Latin America.

As a Western banker in Lagos, capital of Nigeria, recently put it "The time has come for this country to take its medicine."

But the news that West Africa's oil giant has had to swallow the IMF prescription will reinforce fears up and down the continent that 1983 is indeed the year of recolonisation.

Much of black Africa feels deeply insecure about its independence — still a new and fragile possession. If even Nigeria, so ostentatiously rich until a few years ago, must start yielding up its sovereignty, what hope is there for a host of smaller neighbours?

Africa's new overlords, the neat IMF men bearing briefcases with combination locks, make a sharp contrast with the paternalistic governors of the colonial era, wearing their swords and plumed hats. But for all their good intentions, they are starting to be almost as keenly resented.

The recognised mission of the IMF is to bail out virtually bankrupt countries. In return, hard-pressed presidents promise to take their "medicine" — harsh doses of austerity that can bring on riots, even coups. Sometimes the patients bulk and renege on their promises, then the next tranche of funds is withheld.

In some of the score of African countries where its writ runs, the IMF has its own men installed in Central Banks and Treasuries. They decree which payments are permis-

President Nyerere accuses the IMF of political meddling.

sible, which contracts may be signed.

A finance minister to whom I talked in another African state was more explicit "My country is now a colony of the IMF. I am not making a judgment, merely stating a fact."

President Julius Nyerere has had a long running battle with the IMF, which wants him to change his socialist agricultural policies (a big disappointment, admittedly) before he receives any money. He accuses the IMF of "political meddling" in Tanzania.

In their sleep, the black leaders can recite the basic IMF demands: cuts in public spending, an end to food subsidies, no price controls — and always, devaluation.

Behind a front of omniscience, the IMF men are concerned about having to take on their permanent parental role in Africa. They accept that their task is no longer simply easing short-term balance of payments problems. Moreover, they privately confess "Country X has done all we told it, but doesn't seem to be much better off."

They have seen the African predicament developing — and so drawing in the IMF — faster and faster, since 1980.

The vicious circle of poverty makes it ever less possible for Africa to feed itself. In 1950, the continent was self-sufficient in food. In 1978, it had to import 12 million tons of cereals, and in 1990 will need around 45 million tons (a third for Nigeria alone).

Searching for ways out of the impasse, many African intellectuals are beginning to argue that their continent has for 20 years been travelling down a road that cannot lead to real freedom, but to ever greater debt and dependency.

0966
1026
1045
1064

0966	0336	031
1026	1156	
0935	1145	
0513		
0562	1142	
0871	1141	
0760		
0770		
0830		
0860		

SOCIAL SECURITY - GENERAL

0	0230	0171	0302	0583	0414	0095	0096	0057	0238	0229
1	0280	0241	1052	0943	0714	0225	0146	0245	0328	0229
2	0760	1052								

SOCIAL CLASSES

0	0220	0691	0433	0635	0446	0717	0713	0968
1	0760	0981	0613	0985	0626	0477	0968	
2	0980	1161	0312	0634				

SOCIAL CLASSES

0	0110	0121	0324	0461	0571	0601	0971	1091
1	0350	0460	0570	0600	0910			

SOCIALISM

THE REAGAN Administration, which strongly opposes the proposed piece of US legislation that would cut off further International Monetary Fund loans to South Africa, probably won't have to lift a finger to defeat that amendment

Congressional officials have said they expect the proposal to fall quietly by the wayside

The Dixon amendment, which would require the United States to vote against any future IMF loans to South Africa, was tacked on to the IMF funding-increase Bill by the House of Representatives during the spring session

Displeasure

The House, the more directly Democratic of the two chambers of Congress, threw in the amendment, sponsored by Representative Julian Dixon of California, to express on-the-record displeasure with the White House's policy of 'constructive engagement' with South Africa

But congressional observers believe the amendment, a small part of the highly controversial IMF funding Bill, may be shelved because many of the legislators who voted against IMF aid to South Africa will compromise on that rather than risk defeating the crucial IMF quota increase

The Reagan Administration has already

Loan-ban bid against South Africa may just 'quietly die'

pledged to boost its share to the hard-pressed international organisation by \$8.4 billion (R9.4 billion), pending congressional approval. President Reagan and his deputies in the Treasury Department have fought tooth and nail to push the Bill through the House, which balked at the increase

Congressional opposition from both liberals and conservatives is rooted in the widespread, and partly correct, perception that the IMF increase is a bail-out of the big, over-extended commercial banks caught in the spiralling debt crisis

Tacked on

The Treasury has warned Congress that unless the United States leads the way in shoring up the IMF's resources the debt crisis could erupt and wreak financial havoc

The Republican-led Senate approved one version of the funding increase. The House also passed the Bill but tacked the Dixon amendment on to register its disapproval of the loan recently granted South Africa by the fund. The White

Special Correspondent WASHINGTON

House immediately expressed its opposition to the Dixon amendment, saying the IMF was not a political, but rather a financial, entity

The administration has said clearly that IMF loans to any of the 146 member-nations are not to be considered a political endorsement of the borrower, but whether that is the case remains widely debated.

Pledged

An administration source predicted it would be a very close vote on the House floor. But several congressional aides said they believed the Dixon amendment would probably die quietly during the complicated conferences between the House and

Senate banking committees

He said members of those committees did not consider the Dixon amendment 'serious' legislation

But Bevan Dufty, one of Mr Dixon's aides, said that without the amendment the House leadership had pledged to defeat the President's IMF Bill

'We have the backing of the Democratic leadership and a commitment from the House banking committee chairman,' Mr Dufty said. The Democrat-led House, clearly unhappy with most of Mr Reagan's foreign policy, could decide to flex its muscle, that is, the power of the purse, in this instance

There is also a third alternative. Congress may sit on the IMF funding Bill indefinitely as members attempt to iron out their differences in interminable committee politicking.

156 RDM 2/9/83

IMF and its money men put the squeeze on Africa

AFRICA is being recolonised by the world money-masters, the International Monetary Fund (IMF).

Money is the new boss, and today's poverty-stricken Africa cannot do without loans to adjust its sinking balance of payments and shrinking foreign exchange holdings. Oil prices have hit hard.

From JOHN WORRALL in Nairobi

Almost all Black Africa's nations are in the same boat dependency on the IMF. But it's not merely a question of lending money. Not on your life. When the IMF moves into a country to save it from bankruptcy and worse they demand a return which

some countries find it very hard to stomach. The new rulers march in with quite appalling demands from the governments involved.

They literally take over the economy, insisting on austerity measures which are hard to bear. And harder to get the ordinary people to accept.

Among the austerities the IMF insists on is public spending cuts, the end of food subsidies, removal of price controls and devaluation.

The development which African states had elevated to a kind of religion no longer becomes possible.

Imports are priced out of existence, projects fail. Governments try to keep the existence of their new economic rulers quiet, refuse to confess the concessions they have made, are humiliated by the new master relationship.

Nothing can be done because they have come to need the help the IMF can give desperately.

African states are now haunted by the financial madness going on in Latin America. It could happen to them, so they toe the IMF line as best they can and swallow the bitter Washington pills.

Blandly, the IMF monthly survey writes: "Faced by severe economic and financial problems a large number of African countries have entered into adjustment programmes supported by the use of fund resources."

But these "adjustments" are so deadly to governments that they sometimes rebel.

President Julius Nyerere of Tanzania is on fighting



Dr JULIUS NYERERE... fighting terms with IMF

terms with the IMF, which insists that before they lend him money he must move his socialist agricultural policies to the right, make his collective farms more productive, even allow more private enterprise.

Nyerere calls it "political meddling".

But they made him devalue his currency, stiffen up on imports, clean up his bureaucracy.

The IMF wanted the Sudan to remove rice subsidies, which caused rioting in Khartoum.

The IMF is insisting on austerity in Nigeria.

President Muhammed Haidalla of Mauritania is being forced to devalue by 24%.

Kenya has had to devalue three times, tighten up imports, increase taxes and put up farm prices, to qualify for IMF loans.

But if African states want to improve their balance of payments and start earning money again, an application of severe austerity is the medicine they must take if the IMF is to lend money.

There is no doubt of it. the IMF, that body of grey men armed with computers and pocket calculators, are the new colonisers of Africa. Paternalistic colonisers, it is true, but masters just the same.

INTERNATIONAL MONETARY FUND

Spend now, pay later

Just what is SA's position with the International Monetary Fund (IMF)?

The subject has generated public comment recently, by definition more heat than light. One thing is clear — the country has not yet repaid a cent of its late-1982 borrowings. It also seems unlikely that it will right now, with its foreign cash reserves at about the same level as they were when the reserve-bolstering loan was arranged, and its banks' foreign liabilities only 20% lower.

The issue arose in June this year, supposedly after a Fund mission ended a routine inspection tour of SA. Finance Minister Owen Horwood then said, allegedly under pressure from the Fund, that he had undertaken to repay "modest amounts" of the loan, the reserves permitting. Well, the reserves right now do not seem to permit — and SA can hardly be said to be depriving more needy countries. For one thing, the Fund decides what it does with its cash. For another, the SDR 795m (R940m) that SA owes the Fund is a droplet in an ocean of SDR 25,2 billion (R30 billion), the total for all member countries.

These figures come from the Fund's monthly publication, International Financial Statistics, which details the debt secrets of all its member countries. One thing it shows is that the Fund has bought to date SDR1,4 billion (R1,7 billion) of SA currency in exchange for more-useful dollars, marks and yen. This is 225% of SA's quota, but it's not too bad when compared with an Ivory Coast at 548% or a Turkey that tops the list at 630%. On the other hand, it's a long way from the super-thrift league of, say, Saudi Arabia at 19% or Trinidad, which wins the good housekeeping medal at 16%.

At the end of June, SA's position in the Fund looked like this:

□ Its quota, the "entry fee" to the Fund set by the relative size of a country, was SDR636m (R751m),

□ Its reserve position was nil, SDR21m (R25m) having been drawn in 1980 and the



Finance Minister Horwood ... not even modest amounts?

remainder, SDR107m (R126m) at the beginning of 1982. The reserve tranche is equal to that portion of the quota *not* held by the Fund in rands, but in other currencies or assets, adjusted by certain formulae.

□ SA also drew in early 1982 on its SDR allocation, reserve assets created by the Fund, to the tune of SDR111m (R131m). This, with the reserve tranche drawing, brought the total at the time to SDR218m or R257m. Since then, the SDR level has fluctuated, but the June 1983 figures suggest SDR58m (R69m) still outstanding. *These drawings were both on SA's "own money" and did not require deliberation from the Fund.*

□ In the last quarter of 1982, the country was allowed access to a compensatory financing facility, a balance of payments

buffer for primary producing countries. SA took the full amount allowable for export shortfall cases — that is, 100% of its quota or SDR636m (R751m), and

□ At the same time it was granted a Fund credit tranche, the traditional cap-in-hand loan. The amount was SDR364m (R430m), given as a stand-by line, rather than an outright loan. The credit tranches are each 25% of the quota (in this case $\text{SDR636m} \div 4 = \text{SDR159m}$), each subject to stricter conditions. SA drew one tranche, SDR159m (R188m) immediately, and since then has drawn no more and repaid none.

The last two categories are, as defined, the total use of Fund credit. It amounts to SDR795m (R940m), and it is this that the country is obligated to repay — probably within three years.

Other figures reveal

□ That SA's foreign cash reserves have been low, and barely risen, since the fourth quarter of 1982, with one notable exception in April this year. At June they stood at \$361m (R404m),

□ That the gold swaps arranged in fourth-quarter 1981 and third-quarter 1982 have not been unwound. The 1981 swap reduced the country's gold holdings by 3m ounces to 9,3m ounces, and the 1982 swap by another 1,4m ounces to 7,7m ounces. At June this year, they stood at 7,82m ounces, and

□ The total reserves at June 1983, SDR692m (R817m), with gold valued at SDR35 or \$37/ounce) were about the lowest they have been since 1979. Somehow, it looks as if SA will not rush to repay even "modest amounts" of its IMF debt.

INTEREST RATES

Over a hump

The short-term money market was the scene of a lot of action in the early part of this week. Yields tumbled as buyers flocked

VITAL STATISTICS

SA's Accounts with the International Monetary Fund

	1980		1982				1983			
	III	IV	I	II	III	IV	I	April	May	June
Reserve position in Fund	107	107	—	—	—	—	—	—	—	—
SDRs	108	115	115	4	4	99	87	70	57	57
Compensatory Financing Facility	—	—	—	—	—	636	636	636	636	636
Credit Tranche — Drawn	—	—	—	—	—	159	159	159	159	159
Undrawn	—	—	—	—	—	205	205	205	205	205
Total Reserves*	788	898	900	736	830	705	731	949	676	692
Foreign exchange	140	350	466	417	558	341	375	609	347	361
Gold (million ounces)	12.36	9.29	9.08	9.03	7.68	7.57	7.69	7.71	7.76	7.82

□ All figures in millions of SDRs unless otherwise stated. One SDR = R1,181 at 30/8/83.

* Gold valued at SDR 35/oz.

Source: IMF

THE IMF

A changing role

156

In its newly acquired role as broker between Western commercial bankers and indebted Third World nations the International Monetary Fund (IMF) has emerged from institutional obscurity as both guardian angel of a strained international financial system and whipping boy for politicians around the globe, writes our Washington correspondent

With its annual meeting only two weeks away, the IMF's directors find themselves in the precarious position of balancing between angered Third World politicians who don't like the severity of IMF "austerity measures" and wary Western creditors who no longer think the industrialised world should pick up the tab for Third World expansion

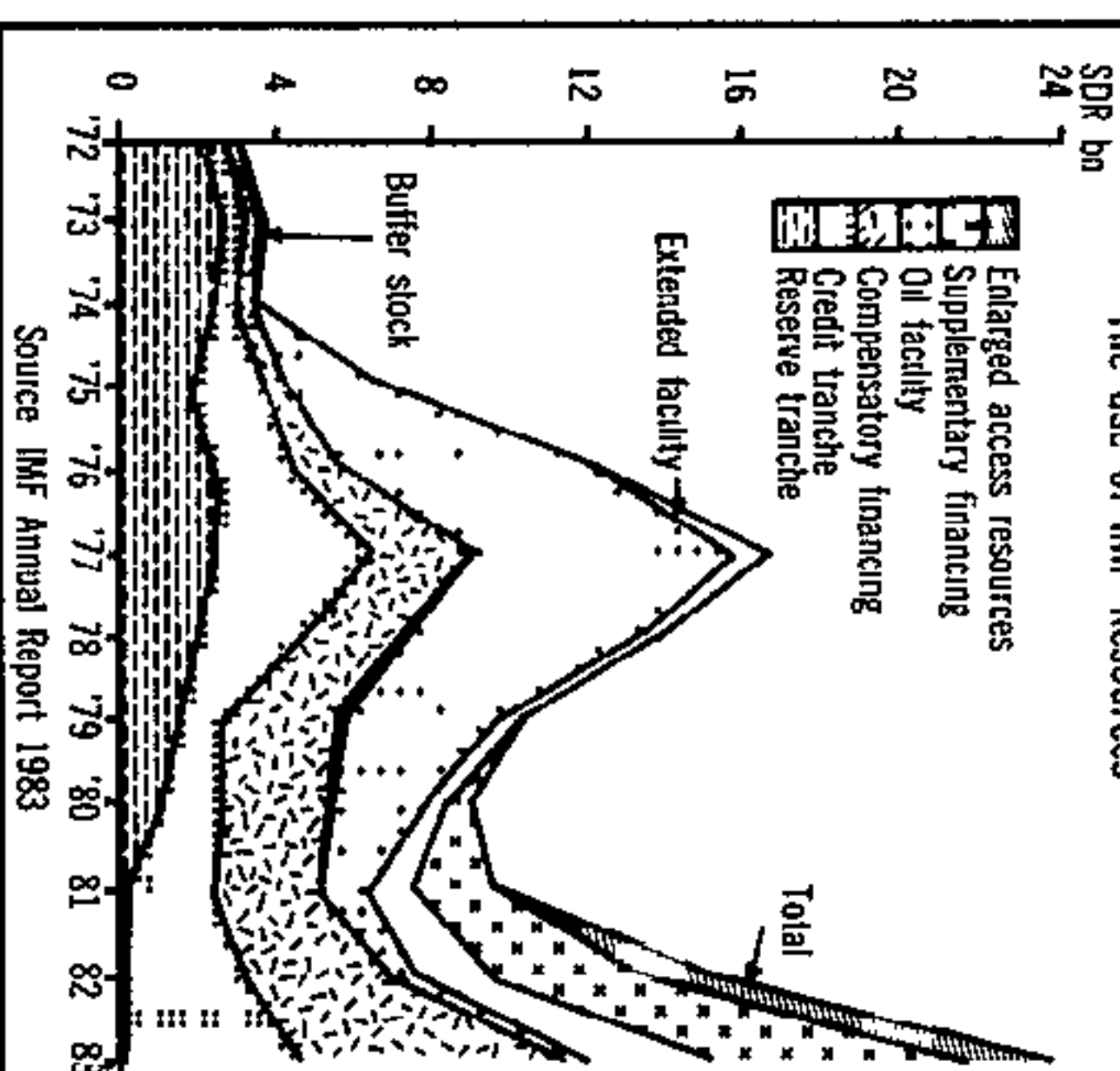
As such, it should come as no surprise that the annual IMF report, released last week, is a study in the art of negotiation. The cautiously optimistic report says that the stage has been set for a pick-up in international production and trade. But it warned that the recovery "could fizzle" if countries don't continue to tighten their fiscal belts.

The annual report does not make recommendations on the crucial issues expected to come up at the annual meeting, such as how the organisation will obtain additional financing or whether it will limit the amount of money that developing countries

The world debt crisis is changing the role of the International Monetary Fund as becomes a broker between Western banks and Third World debtor nations. At the Fund's forthcoming annual meeting, this new function is likely to be challenged by both sides.

BAILING THEM OUT

The use of IMF Resources



Source: IMF Annual Report 1983

may borrow from its reserves

The timing of the meeting, however — it coincides with the start of new session of the US Congress whose first task will be to move on the \$8.4 billion IMF quota increase — ensures that the topic of IMF financing will not escape debate.

In the US, the IMF quota increase proposal, has attracted the ire of both liberals and conservatives who view it as a "big bank bailout." Before the summer recess, the Reagan administration won approval for the measure but it must go through another legislative round before becoming law. The proposal is expected to meet even more resistance than it did the first time when it squeaked through with a margin of six votes in the House of Representatives.

The IMF was counting on the US to pull through with the much-needed cash for the fund's reserves. In the wake of US indecision, other Western nations have also put the brakes on their versions of the quota increase measure. The Latin American debt crisis, which ironically began on the eve of the IMF annual meeting last year, has given rise to fears that the Western world no longer possesses unlimited resources for Third World loans.

"I just can't conceivably vote to increase the IMF's funds for the Third World when there are farmers and workers in my district back home that are out of work and

out of money," says Congressman Andy Jacobs, echoing the sentiments of many of the Bill's opponents

"If there are any government funds to be had I want them for the folks back home, not somewhere overseas"

It is not just American politicians out to score points in middle America that are unhappy with the IMF. In the last few months, the fund has watched the popularity of its increase proposal in other countries dwindle as fast as its reserves. The proposals are meeting heated opposition in both the UK and West Germany.

The IMF, for the first time in its history, is going through a severe cash shortage. As a result, IMF director Jacques de Larosiere has spent the summer in search of "emergency loan" money to fill the 146-member agency's depleted coffers.

The institution's loan commitments already exceed the borrowed resources in its treasure chest and De Larosiere has said that the fund may not be able to continue disbursing the money called for in its present lending programmes without some sort of emergency loan. So far, the agency has no formal commitment but it is currently negotiating with Saudi Arabia for a \$6 billion loan.

Whether or not the fund can overcome current financing difficulties, it will still face increasing pressure from the Third World debtor nations tied to its purse strings, and this is sure to be a major topic of discussion at the meetings.

During last week's meeting of the Organisation of American States (OAS) in Caracas, Venezuela, Latin American officials castigated the IMF's austerity measures as too severe. The IMF has negotiated economic packages with over 20 Third World nations hard-hit by the recession and struggling under massive foreign debts.

Despite the relative success in Mexico, which instituted IMF prescribed goals in an



IMF's De Larosiere ... strapped for cash

effort to bring a runaway economy into control, the general feeling in Latin America is that most countries will not be able to meet its strict economic standards.

Recently this point was underscored when Brazilian central banker Carlos Langoni quit his post as financial negotiator for the nation with the biggest foreign debt, \$90 billion plus. He told reporters the IMF wanted "too much, too fast," and rather than work for "unrealistic goals," he resigned. Langoni and an increasing number of Latin American officials want the IMF

to give them more time to make the wrenching economic adjustments that the institution demands in return for the "seal of approval" that is now a prerequisite for Western commercial lending, as well.

Under fire from all parts of the world, the IMF has not felt a breath of fresh air during the steamy, hot months of this last Washington summer. It is not surprising, then, that its annual consensus report is rather devoid of controversial topics. The report does say that the job governments face in the next year is "to build a sustainable recovery that will not rekindle inflation but will instead build on a foundation for economic expansion 'around the globe'."

The report did take to task the recent trend in the industrialised West towards rising protectionism, which it calls a "major impediment to a revival in world trade." The world trade volume fell by 2.5% last year, the report notes, and that, coupled with protectionist measures and the low commodities prices, further complicated the already stifling effect of the global recession in most of the Third World.

The report suggests that the big debtor nations in the Third World would be wise to try attracting direct and private investment that will not only increase productivity but will also transfer expertise and technical skill from the North to the South.

This theme is one the Reagan administration has advanced as a prescription for Third World woes in the last few years.

US budget deficit

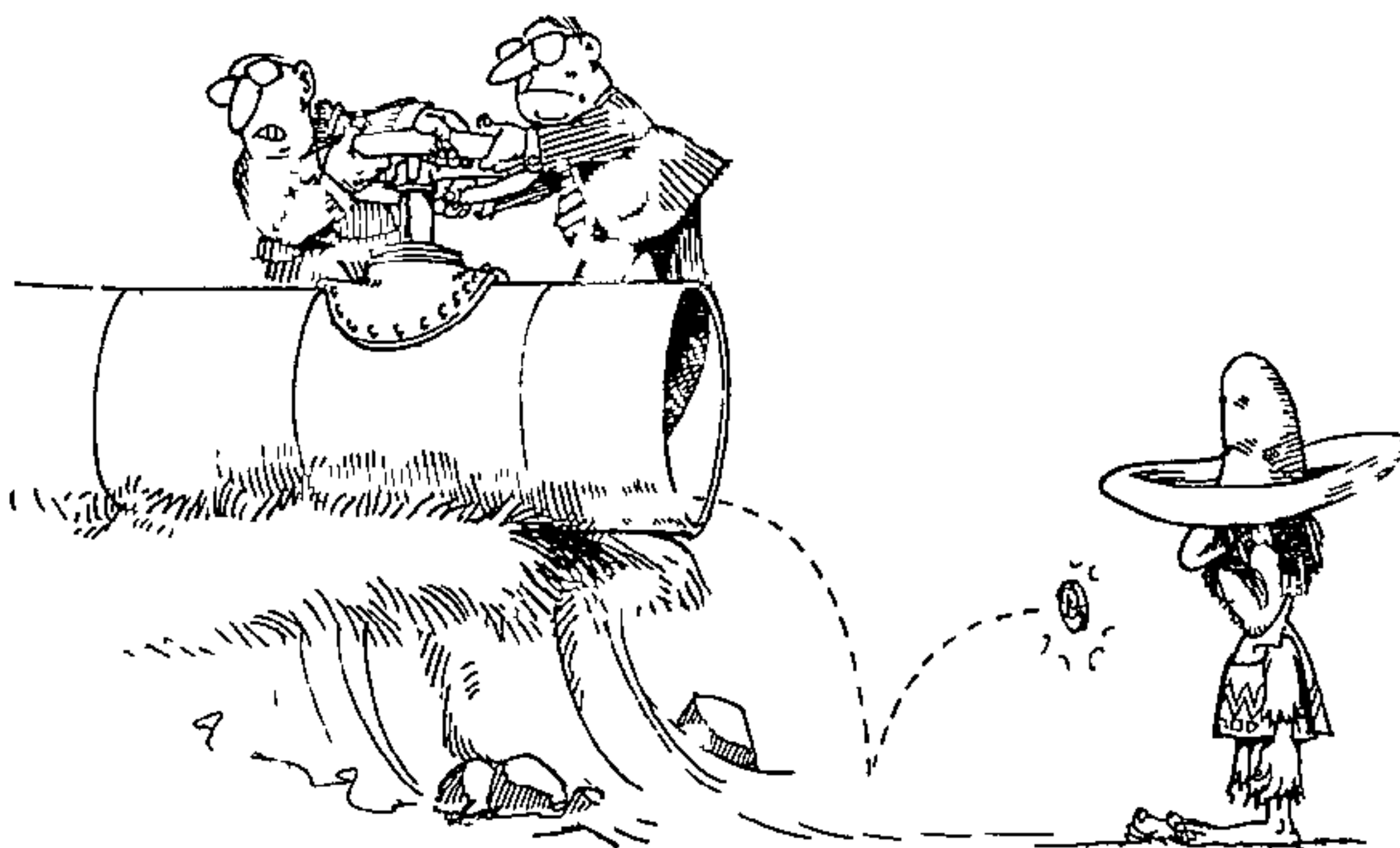
The annual report did attack the Reagan administration for the high budget deficits, expected to exceed \$180 billion plus this year. The report argued that a reduction in the size of the US deficit would reduce interest rates and "bring about a fundamental improvement in the conditions for sustained economic growth."

The fund study also reported that the total level of international reserves declined in 1982 for the first time in more than two decades, falling by a full percentage point during the year. The bulk of the decline came among oil producing countries hit by the drop in oil prices.

In the midst of the gloomy figures there was some cause for optimism, however. Looking at the trade balances of the developing nations as a whole, (not counting oil producing countries) the report showed considerable progress halting the flow of red ink.

From a peak of \$108 billion in 1981, the group's aggregate current account deficit dropped to \$87 billion in 1982.

As always, the good news was tempered with a few words of caution, however, and this time they came in the form of future loan prospects for developing nations. Despite the drop in the current account deficit, the general outlook for a new cash flow from the West to the Third World is not good, because of the unwillingness of bankers and governments alike



(156)
20/4
22/9/83
**US bid
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harm
IMF'**

THE Minister of Finance, Mr Owen Horwood, yesterday criticised US congressional moves to put political restrictions on International Monetary Fund lending and said they could irreparably damage the organisation.

Mr Horwood said in an interview that attempts in Congress to restrict US funding on IMF loans to communist countries and South Africa could mean the beginning of the end of the IMF as an objective body.

"It would be a tremendous blow to the IMF which has been an efficient and useful international agency which has managed to be objective. Once a breach like that is allowed, who knows, it might be the beginning of the end of the IMF as we know it."

A joint committee from the House of Representatives and the Senate is due to discuss a House addition to a Bill requiring the US actively to oppose IMF loans to countries practising apartheid or governed by communist dictators.

Mr Horwood, who leaves South Africa tomorrow for the IMF-World Bank annual meeting next week in Washington, said Pretoria was considering pre-paying part of its loans from the fund.

South Africa had drawn about R950-million of its R1 240-million loan authorisation from the fund, which was all it planned to use at the moment, he said. A decision on pre-paying some of this might be made at the meeting next week, he added.

The loan, which can be repaid in three years, was arranged last year because of balance of payments problems.

Mr Horwood said he expected the world debt crisis would be the main topic at the Washington gathering of the world's Finance Ministers, central bank governors and top commercial bankers.

South Africa's economy, which has been hard hit by drought, would probably shrink by 2 to 3% this year after adjustment for inflation, he forecast.

But he said that if the US economy picked up as forecast then South Africa might see an economic upturn before the middle of next year.

Aid to poorer countries main issue for IMF

Agus 24/9/83 (156)

WASHINGTON — The need for greater assistance for developing countries, and especially for those in sub-Saharan Africa is expected to dominate next week's meetings of the International Monetary Fund and the World Bank.

The World Bank reported this week that impoverished people in sub-Saharan Africa will face an even bleaker future unless the international community mobilises more financial help for the region. The study updated a report issued two years ago.

It said a serious situation had now deteriorated even further and it would be irresponsible if wealthier countries did not step in with assistance.

The report is certain to become a new source of ammunition for the so-called Group of 24 developing countries, which is preparing position papers to present to industrial countries at the meeting.

The report said it would be an international

tragedy if wealthier countries did not increase assistance to sub-Saharan Africa, particularly since the African states appeared willing to take the steps necessary to reform their economies.

A deterioration of the economies of African countries which characterised the 1970s had continued into the 1980s, the IMF said.

All major economic measurements, including gross national products, agricultural levels, exports and imports of food "remain matters of extreme concern."

The report said more money should be pumped into the International Development Association, the World Bank's soft-loan affiliate.

Scaled down

This is likely to be a major issue at next week's meeting. The United States has opposed the World Bank's request for about \$16-billion over three years, saying that IDA programmes should be scaled down and go only to the very poorest countries.

The report said "Replenishment of IDA at an adequate level is now critical if effective support is to be given to the incipient movement towards major policy reform in Africa."

It emphasised that domestic policy alone in about 40 countries south of the Sahara would not resolve the region's economic crisis.

Cash flow

But in addition to demanding more money for the IDA, the developing countries are likely to seek a major increase in the distribution of the IMF's own currency, the SDR, and continued broad access to IMF aid.

They have criticised the United States because it has yet to contribute its \$8.4-billion share of an increase in country quotas or enlarge the General Arrangements to Borrow, an emergency pool of money set aside by the industrial countries.

As a result the IMF is also being hit by a shortage of money. It faces serious cash flow problems by April next year unless

it gets fresh income from quotas and borrowing, according to a report by one of its executive directors, Mr Alvaro Donoso.

The fund's uncommitted resources, which in July this year stood at 6.8-billion special drawing rights (SDRs), would otherwise be wiped out by April 1984 and its positive cash flow drop to dangerously low levels.

Unless the IMF changes its policy to allow increased borrowing, the fund could in any case face renewed liquidity problems over the next two years, the report says.

Mr Jacques de Larosiere, the IMF's managing director, has been seeking about 6-billion SDRs in bridging loans to see the fund through 1983, but the group of 10 industrial countries has so far failed to approve its 3-billion SDR share.

"It is hoped that the annual meeting of the IMF will make progress in preventing uncommitted resources from dropping below zero before the new quotas take effect," the report says — Sapa-Reuter.

Democrats killing off anti-SA funding vote

156 27/9/83

A CONGRESSIONAL drive to deny South Africa further access to the International Monetary Fund (IMF) is being killed by its Democratic Party supporters and over the strenuous objections of the Reagan Administration.

In a political battle ripe with irony, the House Speaker, Mr Tip O'Neill, has threatened to block passage of an Administration-sponsored Bill to increase the United States contribution to the IMF by \$3.4bn

The increase is a key element in the IMF's rescue operation to prevent Third World countries defaulting on an estimated \$600bn in loans from Western banks and governments

The House passed the Bill by a water-tight six vote margin in August,

From SIMON BARBER in Washington

having inserted two controversial amendments

One required the United States fund-director to vote against — and thereby effectively veto — any future South Africa loan request

The other, offered by Mr Phil Gramm, a Texas Republican, expanded this to include "communist dictatorships"

Some 20 Democratic Congressmen who opposed the Gramm rider were subsequently denounced in their districts by the Republican national campaign committee as "communist sympathisers"

The targets, led by Mr David Obey, a liberal Democrat from Wisconsin, furiously demanded a retraction and apology from President Reagan, and promised to change their votes on the

increase when a final compromise version was reported out of a House-Senate conference, even if it also meant killing the South Africa amendment

At first, this appeared to be something of a bluff, designed to wring concessions from the White House on other legislation and to force the President to embarrass himself by criticising his party's Rightwing

Last Friday, however, as finance ministers arrived in Washington for the annual IMF-World Bank conference, the threat became deadly earnest

Mr O'Neill, the Democrats' congressional leader, weighed in behind it himself At the same time, the urgency with which the new United States contribution was needed became increasingly pressing

The IMF managing director, Mr Jacques de Larosiere, warned that without emergency replenishment to tide it over until the end of the year, the international lending institution would soon be broke

Furthermore, because of Congress' delay, Saudi Arabia and several European central banks refused the IMF's request for a \$6bn advance

As a result, Mr De Larosiere announced that the IMF would negotiate no new loans

South Africa, which last year borrowed \$1.1bn from the IMF, is being quietly urged to speed up repayment

For Mr Reagan the choices are stark — to sign the letter of renunciation demanded by Mr O'Neill and face a conservative firestorm, or renege on the US commitment to the IMF as it seeks to avert a world-wide financial nightmare

september 30 1983

Financial
Mail

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IMF CONFERENCE

Uncle Sam gets tough



As the world totters under a debt burden of \$700 billion, this week's tension and disagreement at the annual meetings of the International Monetary Fund (IMF) and the World Bank in Washington centred around two crisp issues, both with meaning for SA

Firstly, the US, as already signalled in its tough stance at the UN over the Korean airline atrocity, is taking no more nonsense from communism, or its fellow travellers in the Third World. Under the Reagan administration, America is tired of financing corrupt Third World dictatorships pursuing policies which could not be better designed to ruin their economies and send them back begging for yet more aid

The World Bank, which over the past 10 years has dispensed almost \$13 billion in aid to Africa alone, this week issued a report in Washington suggesting that Africa's troubles were, believe it or not, self-inflicted.

"The immediate and continuing economic crisis in Africa," says the report, "is a crisis which has arisen from the widespread adoption of prices and incomes which have provided inappropriate production incentives"

In good, clean English, this means that, because Africans were not allowed to chase a profit, make a buck and generally improve themselves by their own efforts, the continent has sunk into a quagmire of debt, starvation and poverty.

The lesson for SA here is clear we must stick firmly with those policies which allow market forces rather than civil servants to decide prices and allocate resources Combined with such policies must be restrained growth in the money supply reflected in reduced government spending

In the highest echelons of US economic policy making, SA's approach has been noted with approval Among the 146 nations gathered in Washington this week, SA ranks high in credibility This standing is a great national asset any move away from the market approach back to controls and protectionism would do us incalculable harm

The other issue concerns the role of banks in the modern economy Across the US there is a well of resentment among ordinary people they believe their tax dollars are

being handed over to the IMF and the World Bank merely to bail out big commercial banks which have lent imprudently to the Third World Thus Congress is reluctant to pass the Bill increasing America's quota to the IMF by \$8,4 billion. Other aid programmes are being held up for the same reason

On the other hand, there is abroad in the international community the view that banks must prop up insolvent Third Worlders rather than get tough and demand due payment of interest and principal. The prospects of such payments are now academic; the question is, should the banks pump in more or cut their losses and try to recover what they can? The risk here lies in the domino effect. The spectre arises of big bank collapses and a genuine world economic upheaval

What we can learn from this is that money doesn't create wealth At its worst last year, SA's foreign interest burden was a bare 5,9% of export earnings, the envy of many Third Worlders where the ratio is often 100% — in other words, hopeless.

It is not the injection of hundreds of million in aid or soft loans that creates wealth It is the release of the creative and productive energies of ordinary people within a system of incentives Without that framework, sustainable growth in the living standards of ordinary people is not possible.

SA's prudent approach means that as the Western economies recover, the benefits will be felt directly by ordinary South Africans of all colours. In the debt-ridden Third World, the tragedy is that the recovery will benefit not ordinary citizens but the banks and agencies which have lent so prolifically to them over the years

Jacques de Larosiere, MD of the IMF, was able to report current growth in the industrial countries of between 3% and 4%, with this rate expected to carry on next year. Inflation, he said, was down from as high as 13% in the first quarter of 1980 to about 5% in the latest 12-month period. These results reflect monetary and fiscal discipline in the major Western economies. They are the answer to those in SA who make the siren call for stimulation of our economy: growth and stability follow lower inflation — this is the lesson of the age of Reagan and Thatcher and it is one that the Third World had best learn fast.

IMF ANNUAL MEETING

Supply side is winning

156

Fm 30/9/83



To the palpable fury of the poor nations the United States has been getting what it wants —
The New York Times

This was the theme of the 38th annual meetings in Washington this week of the International Monetary Fund (IMF) and the World Bank. They took place against a background of economic recovery, falling inflation and growing employment in the industrial world.

In his opening address, the American President, Ronald Reagan, referred to the "magic of the market place" and urged delegates from almost 150 nations to rely on market forces rather than government dictates to allocate resources and provide the engine for growth.

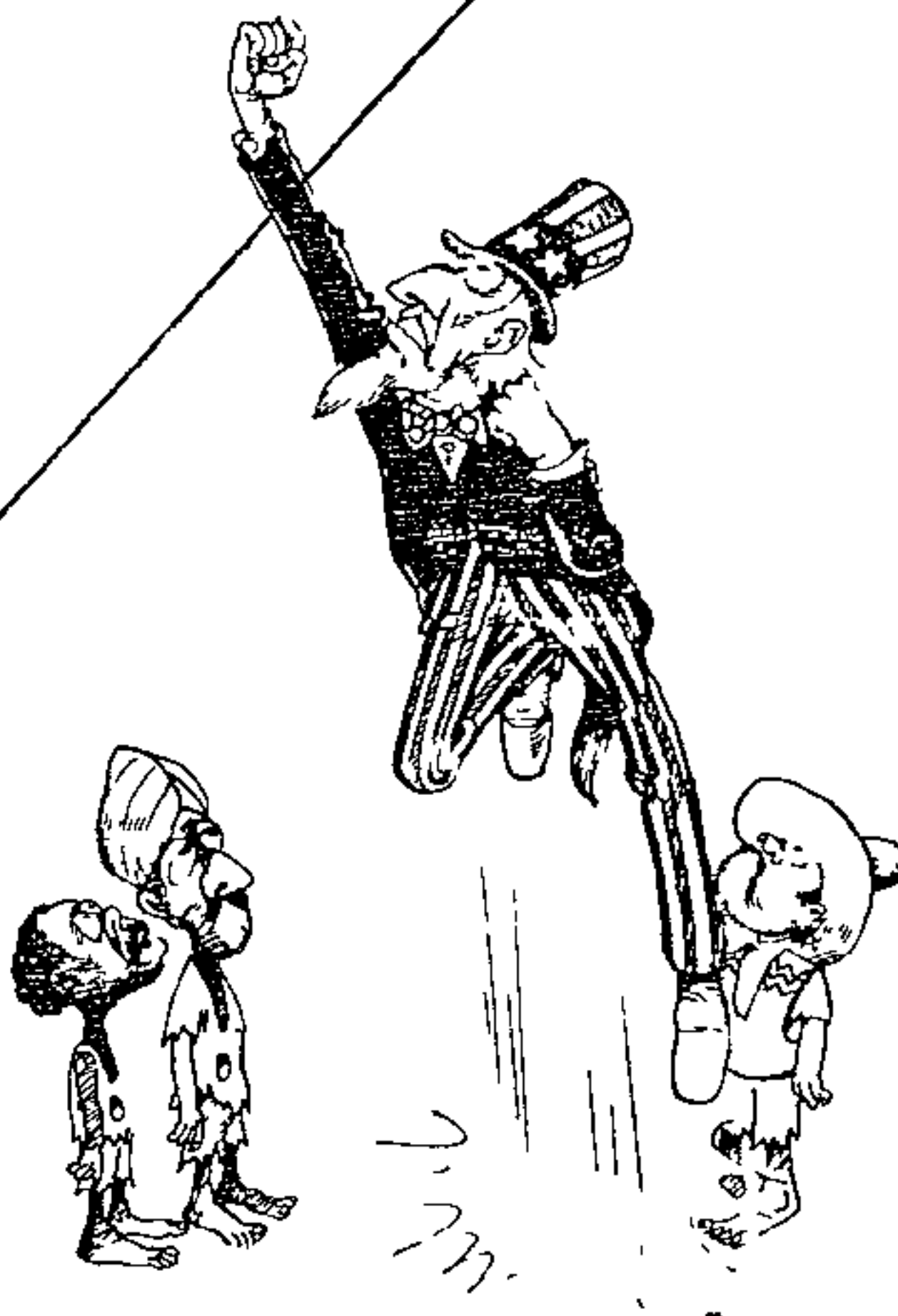
Individual freedom, said Reagan, was the cornerstone of economic growth, and he was able to support this view by revealing some of the latest economic data from the US. He pointed out that gnp grew 10% in the second quarter of this year and by 7% in the third quarter. He stressed, too, that in America the inflation rate fell from 12.4% to 2.6% in the last 12 months and the prime interest rate from 21.5% to 11%. The growth of government spending had fallen by 40%, he said, since his administration had taken office.

And in the closed sessions his Treasury Secretary Donald Regan held firm against appeals for increased aid from the Third World. "It was disastrous for the developing world," said Manmohan Singh, Governor of the Reserve Bank of India. "We have never had such a raw meeting with the developing countries."

Quite simply, the supply side is winning. The stress throughout the meetings was on the need to increase output rather than to stimulate demand. Say's law — that supply

The *FM's* Editor, Stephen Mulholland, filed the reports on the first page and on these pages from the annual meetings of the International Monetary Fund and World Bank in Washington this week.

This is the 15th consecutive year that he has attended these meetings. There are few bankers, businessmen or financial journalists who have as lengthy and unbroken a perspective of the often critical issues faced at this key financial conference.



creates its own demand — held sway in Washington.

This week's meetings were marked by a welcome return of decisive and vigorous leadership by the US. In the immediate post-war period the Americans dominated world events by sheer weight; they controlled half of the world's output. Today this share is down to 20% but their leadership has never been more effective.

Perhaps one of the keys is that they have been prepared to stand alone for those policies of reliance on the market which they believe best serve the interests of ordinary men.

In this regard, SA's economic policies are largely in step with success. What we need to do is to extend those economic freedoms on which the West's recovery has been based to all our peoples.

As the American President declared this week: "Trust the people, this is the crucial lesson of history, because only when the human spirit is allowed to worship, invent, create and produce, only when individuals are given a personal stake in deciding their destiny and benefiting from their own risks — only then do societies become dynamic, prosperous, progressive and free."

IMF AND GOLD

Forced to love thine enemy

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South Africans may view with alarm the prospects of the emergence from the US Congress of a Bill which will effectively block much of our access to International Monetary Fund (IMF) credits. There may, however, be another, and sunnier, side to the matter.

Should the Bill, which deals with a US\$8.4 billion increase in the American quota in the IMF, fail to pass, the Fund will be faced with a real crisis.

Should the American quota increase not

be forthcoming, other major industrial nations will also resist putting up new resources. The Fund is already stretched to the limit and has frozen all loan negotiations.

Now, according to a senior US Treasury official who requested the *FM* not to disclose his identity, the best option left to the Fund is to mobilise its gold reserves as collateral for borrowing on the international markets.

This source, who is a member of the

American delegation at the meetings in Washington this week, suggested that the Reagan administration would not oppose such a mobilisation of IMF gold reserves although Treasury Secretary Donald Regan did say recently such gold backed bonds might be preferable to US Treasury Bills and, therefore, not all that welcome in official Washington.

The irony, of course, is obvious. The IMF has over the years done all in its power to

continued on P34

denote the role of gold as a monetary instrument. It created its own currency, the Special Drawing Rights (SDR) which became known as paper gold, and embarked on an ill-fated scheme in the Seventies to offload bullion onto the world markets. The bullion sales programme was a flop while the SDR is today looked on with deep suspicion by the Americans and other Western powers as a prime source of inflationary monetary creation. In fact, new creations

of SDRs were vetoed in Washington this week.

Now the IMF faces the prospect of being forced to recognise that gold may well be its saviour. It sits on some US\$40 billion worth at current prices, which is well above the quota increase of US\$32 billion now being negotiated.

Such use by the IMF would be recognition of gold's role as a prime reserve asset in an uncertain world.

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FM 30/9/83

Right now the matter is in the balance. Should the quota bill be passed with amendments curbing access by SA and communist countries, then the IMF would have been transformed into a political instrument with its monetary independence destroyed.

The Reagan administration may well resist that outcome and the result could be a resort to a gold standard by the metal's sworn enemy.

IMF ANNUAL MEETING

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156

Fm 30/9/88



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OWEN HORWOOD

'One of the best borrowers'



Stephen Mulholland, Editor of the *FM*, talked to Owen Horwood, SA's Minister of Finance, this week in Washington, during the annual meetings of the International Monetary Fund (IMF) and the World Bank. Here is an extract from their discussion.

FM: What impression have you received concerning SA's international credit rating at these meetings?

Horwood: It has been most encouraging. In fact, for the first time in some while we have been approached to borrow through the public flotation of a large bond offering. No less than four major banks have independently made this suggestion to us here this week. What sort of amounts do they have in mind?

Well, one doesn't make these bond offerings for small amounts. They would have to be of the order of \$200m. The encouraging aspect of these offers is that these big international banks would stand in the full glare of publicity. They seem to be prepared to do this because they feel SA has an impeccable record as a borrower. Banks need good borrowers and there aren't that many around. We are one of the best, in the opinion of numerous top international bankers meeting here in Washington this week. Would there be any specific purpose for such an international bond offering by SA?

You may recall the loan organised by Louis Rive which the government guaranteed and which was aimed at assisting Soweto. It has occurred to us that the new facilities now being offered to us by bankers visiting Washington could be employed for similar assistance to the eastern Cape. A programme of advancement and upliftment through housing and education in the Port Elizabeth, Uitenhage and East London areas is most important at this time. We will make up our minds shortly in terms of an international bond offering with this purpose in mind.

What sort of rates and terms will be attached to the new loan?

We haven't yet discussed details but I can tell you that we will receive very fine terms. It seems to me that these bankers, who have run into such difficulties in countries such as Poland, Brazil,

Nigeria, Mexico and so on are today far less interested in the political popularity of a nation than in its ability to service its debt based on its past record. And in this aspect we rank extremely high. What are principal trends you see emerging here in Washington this week?

Without doubt the single most important feature is the firm and pragmatic stance being adopted by the US. This reflects the economic philosophy of the Reagan administration, which, as we all know, has resulted in a sharp cut in American inflation and a return to healthy growth. This proves once again what we in the Treasury and our colleagues in the Reserve Bank firmly believe these beneficial effects are the result of monetary and fiscal discipline.

Today there is wage restraint in the US. But this restraint followed the fall in inflation. If you get inflation down, you restore confidence in the currency, you make work more meaningful, savings improve, productivity goes up and so on. Now President Reagan has stood firm against appeals for stimulation within the US because he knows that would be suicidal. Now to be consistent he must make it clear to the debtor nations that they must put their houses in order and not expect to be eternally bailed out of trouble.

The World Bank in its report on Africa supported a return to realism away from extravagant projects and towards a system of incentives. As we have seen here, the Americans have resisted attempts to increase access to the Fund at the new quota levels, which in any event have not yet been agreed to as the American Congress is holding up approval of the US contribution.

The Americans are also to a degree isolated among the major nations in insisting that replenishment of the International Development Agency (IDA), which lends to the poorest countries, should be keyed to a \$9 billion level over five years compared to a level of \$12 billion to \$16 billion supported by western European countries, Japan, Canada and others.

What about SA's difficulties in the US Congress where the amendment to the Quota Bill by the black caucus calls for the US to oppose future loans to SA by the IMF?

Yes, we and the communist countries stand to suffer if such amendments go through. The legislative process in Washington is a complex matter. However, I understand it is possible some compromise can be worked out with

those supporting these attachments to the Bill. For example, a conference of the two houses — the Congress and the Senate — could issue a joint statement which would not necessarily form part of the Bill, but would give expression to certain views. Alternatively, discretion might be given to the US Treasury Secretary.

Whatever happens, there is a large and important body of opinion which believes the IMF should be a strictly apolitical monetary institution. I sincerely trust that this view prevails. If it does not, then where does the matter stop? Sanctions can be applied against all sorts of countries for matters that have nothing to do with their economic performance.

In its reporting on SA, the IMF has suggested that our labour policies hinder our economic growth. Could such considerations become part of the conditions applied by the IMF in considering loan applications?

This is a matter which we would clearly have to discuss in a frank and constructive manner with the IMF. This is one of those areas which, unlike, for example, the deficit on the current account, is difficult to measure. However, what we can say is that Fund reports on SA over the years have been excellent and a great encouragement to us in pursuing what we believe to be monetary and fiscal policies which will serve the interests of all South Africans. In view of the shortage of funds at the IMF, has there been any suggestion that the Fund might sell some of its \$40 billion worth of bullion or at least use it as collateral?

We have heard nothing in this direction at all. In the past, when the US Treasury and the IMF sold bullion, no one benefited, except those who bought and held the gold and I'm sure that's not what the objective was. How do you see prospects for an economic recovery?

It's taking a long time for the world's economic slack to be taken up. However, there does seem to be some momentum now. We must be careful and cautious and avoid overestimating the strength of the recovery. As far as SA is concerned, my view is that in spite of the drought we should start to move ahead from the middle of next year. Of course, with the drought having resulted in a 34% cut in the contribution of agriculture, the potential for a recovery here once the drought breaks will be substantial.

Bid to tone down anti-SA loan move

Argus Foreign Service WASHINGTON — An attempt has been made in the US Congress to reach a compromise on contentious legislation that would ban all future International Monetary Fund loans to South Africa

If the compromise is accepted — not certain last night — South Africa may still be able to win American approval for loans if the Secretary of the Treasury can persuade committees of the House of Representatives and the Senate that the loans are desirable and necessary

The Secretary will have to satisfy congressmen that the majority of the people would benefit from a loan

He would also have to show South Africa had a balance of payments problem that could not be met by access to private capital markets, that there was a reduction on constraints on the

movement of workers, and easier access to education

If the Secretary fails to satisfy the congressmen, the President would have to instruct the US representative on the IMF to oppose the loan

South Africa is not mentioned by name. The measure is aimed at countries practising apartheid

The compromise is believed to have dismayed congressmen on the left and the right. Some think it is too soft on apartheid, while others do not want it at all

COMPLICATED

The measure is an amendment to a Bill that increases US contributions to the IMF. This Bill has itself been included in a complicated legislative package that involves a multi-million dollar supplemental appropriations Bill and another Bill to fund federal housing

**Weekend Argus
Foreign Service**

WASHINGTON — South Africa's representative at the International Monetary Fund, Dr Deon Brand, reacted with disappointment here at the decision of the United States Congress to make future South African loans from the IMF subject to political considerations

Yesterday's decision politicised the IMF, Dr Brand said, and this could have bad results in the longer term for the IMF as an effective organisation

Pass laws

For the first time, South Africa will have to show that it is making progress in easing apartheid — such as the pass laws

In the past loan applications by South Africa to the IMF were decided on purely economic grounds.

In terms of legislation approved by both the Senate and the House of Representatives South Africa will have American support for loan applications only if Congress is satisfied that

- Most people will benefit economically,

- There is a balance of payments problem that cannot be solved by access to private capital markets; and

- There is a reduction of "severe constraints on labour and capital supply mobility" and racially based mobility of labour.

Embargo call

Sapa-Reuter reports from New York that Ireland today called on the Security Council to impose a mandatory oil embargo against South Africa and to ban new investment in the country

Mr Robert McDonagh, Ireland's ambassador to the UN, told the General Assembly that apartheid was perhaps the most intractable of all the problems facing the United Nations

"We believe that the system of apartheid constitutes an open, direct and systematic challenge to a concept of man which is basic to our civilisation," he said

Mr McDonagh said it was abhorrent that black South Africans, whose hard work was the key to the country's prosperity, should be the victims of "wholesale discrimination"

He urged the subsidiaries of all companies doing business in South Africa to conform to the code of conduct adopted by the European Community in 1977 in an effort to improve conditions for black South African workers

"Specifically we feel that the existing arms embargo should be strengthened and more

carefully monitored, that a mandatory oil embargo should be formally imposed and that loans to and new investments in South Africa should be banned," Mr McDonagh said

Australian ambassador Mr Richard Woolcott said apartheid was abhorrent and was unreservedly rejected by the government and people of Australia

New Zealand's ambassador, Mr Bryce Harland, said his country was willing to support any economic sanctions imposed on South Africa by the Security Council

SA loans subject to apartheid

IMF now

politicised,

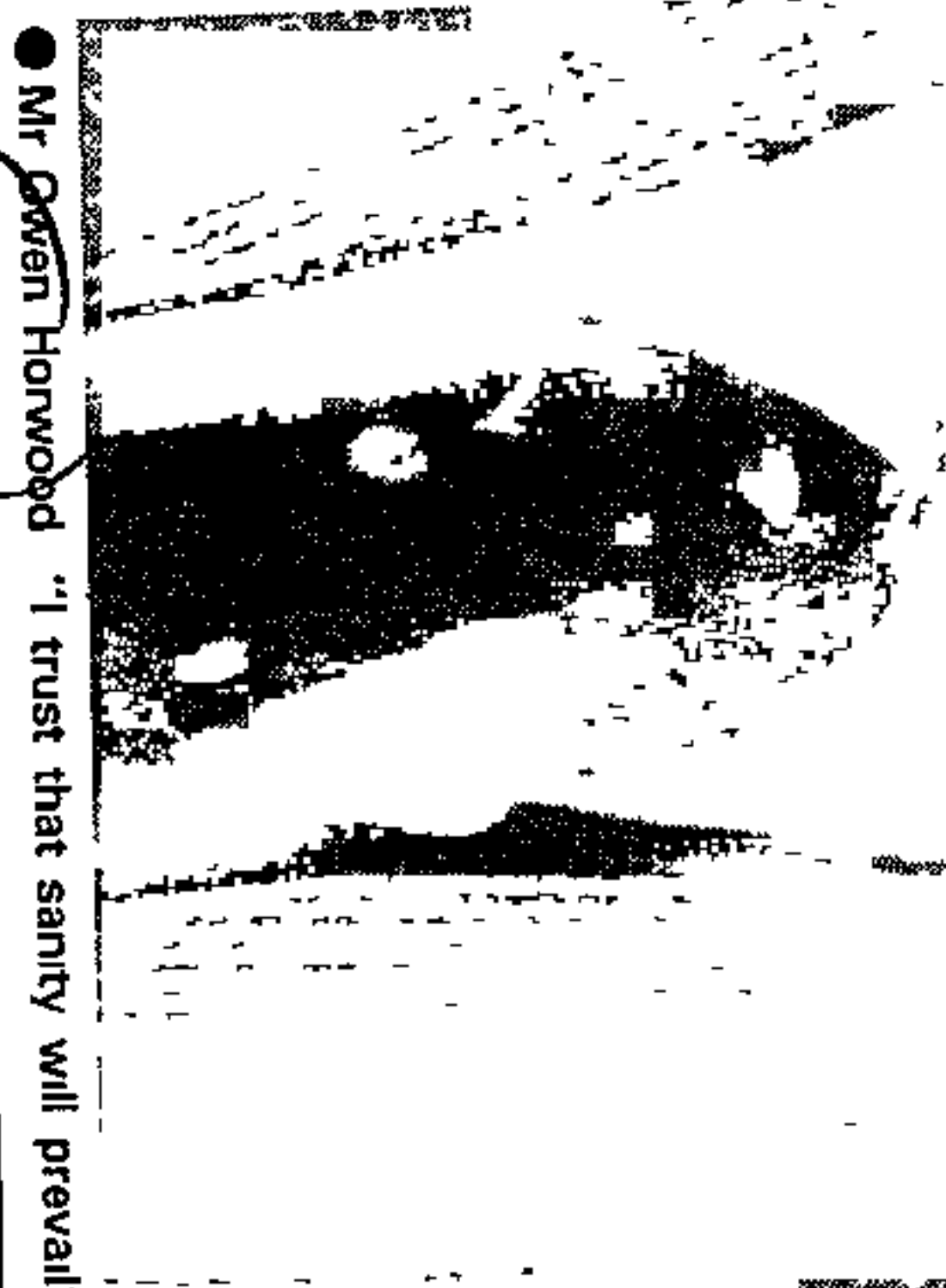
says Brand

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19/4/83

15/4/83

Horwood blasts US move to stop SA borrowing from IMF



● Mr Owen Horwood "I trust that sanity will prevail"

THE Minister of Finance, Mr Owen Horwood, yesterday denounced the American Senate for agreeing to a law that seeks to prevent South Africa from exercising its rights to borrow money from the International Monetary Fund

South Africa is a founder member of the IMF and as recently as last year borrowed \$1 000-million (about R1 1170-million) from the fund

The US controls about 20% of the votes at the IMF and South Africa has no chance of borrowing more money against American opposition

The legislation forcing American delegates to the IMF to vote against all future loan applications by

South Africa was approved on Friday in a compromise between the House of Representatives and the Senate. It was attached to a Bill authorising the American government to pay about \$800-million (about R952-million) to the IMF

The Bill is considered too important to be vetoed by President Ronald Reagan just to stop the anti-South African clause

Senior officials at the South African Embassy in Washington admitted they were shocked

In a statement yesterday Mr Horwood said the move in the US constituted interference in South Africa's

domestic non-financial policies and said it would be a "sad day" for the IMF if political considerations led to its facilities being denied to any member country

"Such political interference would create a dangerous precedent and could signify the beginning of the end of an institution which has thus far scrupulously avoided political interference and has judged credit applications strictly on their merit

"Once South Africa has been denied access to IMF credit on political grounds, the next step to exclude other members for other political reasons would be a rela-

tively easy one to take

"I trust that sanity will prevail in the end and that the IMF will be left alone to fulfill its immense task in a world struggling to avert financial disaster," Mr Horwood said.

GHERHARD PIETTERSE reports from New York that the legislation does make provision for exceptions.

The US will be permitted to support loans to South Africa provided they are used to reduce the constraints on labour mobility in South Africa or to loosen apartheid in other ways. However, IMF officials immediately pointed out that the fund's own rules forbid this type of loan.

"Only countries with balance of payments deficits are eligible for IMF loans and in that event, IMF regulations specify that these funds have to be paid into that country's reserves

"IMF regulations are very clear on the subject of funding government expenditures with IMF loan capital — it is strictly forbidden," the official said.

He said it would be therefore be practically impossible for South Africa to comply with the congressional requirements embodied in the law

"The law demands among other things that South Africa fund educational projects for workers with IMF money and this is simply not permissible. It looks to me like a Catch 22 situation," the official said.

A spokesman for the South African mission to the IMF agreed with this assessment

"It is not going to be possible for us to borrow money from the fund and at the same time to comply with the demands of Congress because what they are demanding is diametrically opposed to fund regulations"

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IMF law can be used as a whip

SOUTH AFRICA WILL HAVE TO SHOW PROGRESS IN EASING APARTHEID

By NEIL LURSEN
Tribune Foreign
Service

In terms of the new law, which is certain to be signed by the President, the Secretary of the US Treasury will have to appear before various congressional committees 21 days before a loan decision to certify that progress is being made.

If the congressmen are not satisfied, the US must actively oppose South Africa's application

One analyst here saw this as an irritation factor that could seriously hamper South Africa's future chances

After the vote on the measure, which was included in a complex legislative package dealing with appropriations, housing funds and a controversial 8.4-billion dollar increase in the US contribution to the IMF, Dr Brand said he was disappointed

"I am disappointed that it is actually the leading country of the West that has taken action to politicise the IMF. All over the world, there is a belief that this should not have been done"

Dr Brand's view was shared by the Reagan Administration and by leading figures such as former Secretary of State Alexander Haig.

General Haig was referring not only to the apartheid restriction — the measure does not actually refer to South Africa by name but to countries that practise apartheid — but to a restriction on communist countries as well.

WASHINGTON South Africa's representative at the International Monetary Fund, Dr Deon Brand, reacted with disappointment here yesterday at the decision of the United States Congress to make future South African loans from the IMF subject to political considerations.

The decision politicised the IMF, Dr Brand said, and this could have bad results in the longer term for the IMF as an effective organisation.

For the first time, South Africa will have to show that it is making progress in easing apartheid — such as the pass laws.

In the past, loan applications by South Africa to the IMF were decided on purely economic grounds.

In terms of legislation approved by both the Senate and the House of Representatives, South Africa will have American support for loan applications only if the Congress is satisfied that

- The majority of the people will benefit economically;

- There is a balance of payments problem that cannot be solved by access to private capital markets;

- There is a reduction of "severe constraints on labour and capital supply mobility" and racially-based mobility of labour.

Analysts here believe that fiercely anti-apartheid congressmen will seize on these factors to assail South Africa's pass laws and other racial restrictions

While the IMF is an independent body that operates under its own articles, its American director has about 20 per cent of the vote because the US is the main contributor to its funds

Thus support for or opposition to a loan by the Americans is a key factor in whether the loan will be granted or not

Until now, the IMF's American director, consulted with the US Administration before casting his vote

US law will hinder SA loans from the IMF

Argus Foreign Service

WASHINGTON. — A measure intended to make it more difficult for South Africa to raise loans from the International Monetary Fund has been signed into law by President Ronald Reagan.

The measure was in the form of an addendum to a major Bill from Congress authorising an \$8 400-million, (R10 120-million) increase in the United States' contribution to IMF funds.

The Reagan administration was opposed to the anti-South Africa addendum on the grounds that it created a dangerous precedent in politicising the IMF, which the US believes should operate on a strictly non-political basis.

However, the administration attached a high priority to making the extra funds available to the IMF to help avoid defaults by debtor nations that could seriously damage the international economy.

No option

Since the President cannot sign only part of a congressional Bill into law, he had no option but to activate the anti-South African section with the rest once it had been added by Congress.

Under the new measure the US representative on the IMF, who exercises the most powerful vote, will be barred from supporting loan applications from South Africa unless Congress has been satisfied that

- Most South Africans will benefit economically.

- There is a balance-of-payments problem that cannot be solved by access to private capital markets.

- There is a reduction in South Africa's restraints on the mobility of labour and capital supply and on racial discrimination in labour.

The secretary of the US Treasury will have to appear before various congressional committees 21 days before the IMF decides on a loan application to certify that the conditions are being met.

Failure to satisfy Congress will mean the US representative will have to oppose the loan to South Africa.

IMF sees Ghana as a model of recovery

CAMERON DUODU reports on the growing confidence of the international financial community in the Government of Flight-Lieutenant Jerry Rawlings

WESTERN donor countries and international lending agencies have put together an aid package that promises to give Ghana the big push towards economic recovery it so desperately needs

At a consultative meeting in Paris recently — attended by representatives of the World Bank, the International Monetary Fund, the United States, Canada, Britain, West Germany, France and Japan — \$150-million was pledged to finance the first year of a three-year programme Ghana has drawn up

The main aim is rehabilitation of the infrastructure in a way that will enable export earnings to be expanded. If the West continues to support the programme, it is expected that aid to Ghana will total \$700-million by the end of the three-year period

Western support of this magnitude is a triumph for the Government of Flight-Lieutenant Jerry Rawlings, which has laboured under the suspicion of being anti-Western since it came to power at the end of 1981

The Americans in particular viewed Ghana's newly established close relations with Libya

unfavourably, and there have been acrimonious exchanges between the two countries over the past two years, with Ghana living in fear of a CIA-supported mercenary invasion

"Significant change"

Britain and other Western countries did not share the American suspicions, and it was partly their patient diplomacy that enabled relations to reach a stage at which the Americans could attend the Paris meeting in good faith

Ghana's Secretary for Finance and Economic Planning, Dr Kwesi Botchwey, told me that he had observed "a significant change" in the American attitude to Ghana

He said "The American position at the conference was very positive."

Although they had not been able to put exact figures on assistance they intended to give Ghana, he was hopeful they would provide "substantial resources in the form of food and balance of payments support" in the coming year

Canada promises to make \$10-million Canadian dollars available for the purchase of

food and agricultural needs, and donated between four and five million dollars in emergency food aid. Canada will also give \$2-million to help Ghana's offshore oil exploration programme

Ghana at present spends about 60 percent of export earnings on oil imports

Britain's pledge

Britain pledged about \$12-million to finance the importation of 17 000 tons of food, spare parts and equipment, and a technical assistance programme. In addition, Britain's Export Credits Guarantee Department is supporting a \$22-million loan by Standard Chartered Bank to finance essential imports

The reason for the international financial community going all out to help Ghana is not difficult to find. The country's economy has been in a mess for most of the past decade

Real output declined at the rate of 2 percent a year between 1979 and 1981. Last year, it recorded a further decline of 7 percent. At the same time, inflation has been in the three-fig-

ure range, peaking at 116 percent in 1981

These harsh economic conditions have led to serious unrest. In May, all three universities were closed after students went on the rampage, demanding that the Rawlings Government should step down

Admiration

In June there was a serious coup attempt during which the radio station was, for almost two hours, in the hands of rebels. Workers have become demoralised by their falling purchasing power, with almost everything essential for a decent life either in short supply or unobtainable except on the flourishing black market

It became clear at the Paris meeting that the IMF and the World Bank have observed with admiration the determination of the Rawlings Government to push through the reforms, despite the unpopularity they have brought in their wake

They now see Ghana as a model that can be used to bend other sub-Saharan countries to the pursuit of what the IMF considers to be "realistic budgetary policies"

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IMF sticks to economic criteria

RDM 1/3/84

By BERENICE MARGOLIS
THE International Monetary Fund does not discriminate politically against South Africa.

Its criteria for loans to this country are strictly economic

This is the conclusion of Dr Deon Brand who recently returned to Pretoria from Washington where he served for two years as official representative at the IMF and World Bank

He says that members of IMF missions who visit South Africa look only at the economic position

However, although IMF loans are based on performance criteria, accompanied by a package of often harsh adjustment measures, realities in member countries cannot be ignored

"Structural rigidities in our labour market have come in for criticism but loans are not dependent on political change although the Government is working on the problem"

South Africa's most recent and biggest loan of 1bn special drawing rights (SDRs), equivalent to R1,25bn, to improve the balance of payments, was subject to conditions such as keeping the budgeted deficit before borrowing to less than 2,5% of GNP.

"I'll lay my head on a block it was a group of Middle Eastern countries that tried to make an economic case against South Africa," he says.

There are 146 member countries on the IMF Board but the voting is weighted The US, for example, has a quota of more than 20% and cast in SA's favour

This poll power means that it can outgun the aggregate voting strength of 10 smaller countries

The Department of Finance, to which the IMF representative is attached, has an office in Washington, mainly to keep the IMF and the World Bank informed of economic conditions and development in South Africa

In the public perception, the IMF and the World Bank are often

seen as one body. There has been a need for closer co-operation between the IMF and the World Bank but their functions differ

The bank is concerned mainly with development while it is the IMF's province to consider financial assistance to countries that need help with balance-of-payments problems

SA's representative in Washington is involved in negotiations with the IMF Board when SA applies for drawings.

Before the IMF sends a mission here our man in Washington has to provide answers to specific questions to strengthen SA's case. His office works independently of the embassy.

Dr Brand has been with the Department of Finance for 13 years. This included six months on an IMF course in Washington

He has a BA in political science from the University of Pretoria; a D Phil in economics, an honours degree from the University of South Africa in economics and a master's degree in economics

from Rand Afrikaans University.

He worked in the office of the economic adviser to the Prime Minister for three years, a position which fell under what was then the Department of Planning

Dr Brand, 43, has hobnobbed with US senators and congressmen but the Washington cocktail circuit is the preserve of embassy staff — so no saucy titbits gleaned from the table talk of the powerful

On the subject of entertaining, the cuisine at Dr Brand's home, whether in official residence in Spring Valley, Washington, or in Muckleneuk, Pretoria, tends towards the international.

The SA's IMF representatives' annual Washington reception, held in a marquee for about 400 people and attended by all governors of the fund and international bankers, is considered a social drawcard

Dr Brand is now director, with special responsibility for public sector capital programmes, in the Department of Finance

Horwood warns of tighter control

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Argus Foreign Service
LONDON — Tight controls over public spending and tougher deflationary measures in an additional budget later this year, were forecast in London today by South Africa's Minister of Finance, Mr Owen Horwood

With the Government daily awaiting the latest report from the International Monetary Fund Mr Horwood is clearly under great pressure to show that he is keeping the Budget deficit under control

"I am sensitive to accusations that the Government is spending freely", Mr Horwood said at a breakfast meeting in the South African Embassy "The Treasury is absolutely persuaded of the need for discipline in spending"

One of the conditions imposed by the IMF on its R950-million loan is that the Treasury monitors spending by all Government departments on a month-by-month basis

Mr Horwood spoke of the tremendous pressures on the Government to curtail spending. It was almost impossible to budget for the cost of drought aid, food subsidies and Defence emergencies, he said

Subsidies on bread alone had cost R275-million. As a result "it will be impossible to avoid an additional budget later this year."

Not sensitive

However recent measures to raise the General Sales Tax from seven to 10 percent would be a major factor in keeping the economy on an even keel, Mr Horwood predicted

"The public is simply not as sensitive to high rates of interest as one might expect", he said, in

what was a clear attempt to excuse the enormous interest burden now being borne by Government following heavy borrowing in the domestic markets last year

The Government had deliberately borrowed heavily as a deflationary measure to take some of the excess spending power out of the domestic economy, Horwood explained

But it had not foreseen that consumer demand would have continued at such a level that interest rates were steadily pushed up

Nevertheless, Mr Horwood pointed to some encouraging signs in the economy and said that the Government would not need to draw down

the remaining R350-million credit it still has with the IMF

He also spoke optimistically about the reactions of international financiers to South Africa and predicted little difficulty in raising international capital

With the IMF peering over his shoulder Mr Horwood is visibly hoping for an improvement in the price of gold

But although he spoke hopefully about world political and economic turmoil creating an "upward pressure on gold" he admitted that gold seemed less sensitive to world upheavals these days and he did not see the price moving up sharply in the immediate future

WORLD BANK/IMF MEETINGS

America's miracle

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"During 1983 the American people created 4m new jobs. This was the largest one-year jump in employment in our nation's history, and it pushed total civilian employment to more than 102.8m, an all-time high.

"America, in the throes of a supply-side recovery, created more jobs in 1983 than Canada has created since 1965, four times as many jobs as the British economy generated between 1950 and 1982, and as many jobs as Japan created in the entire decade of the 1970s.

"The record-breaking increase in employment did not occur in a vacuum. In a sharp repudiation of the Phillips curve — the theory that there exists an inverse relationship between employment and inflation — 4m Americans went to work in a year that saw inflation drop to 3.2%, the lowest .. since 1967 ..

"The creation of 4m new jobs in 1983 is unadulterated good news for the

Some 12 000 delegates will gather from around the globe in Washington later this month for the annual meetings of the International Monetary Fund and the World Bank. The debate is expected to focus on the astonishing performance of the \$3 700 billion American economy, how long it will last, and what it means for the rest of the world.

Reagan administration and the supply-side assertions that low taxes and low inflation can combine to create tremendous economic growth and opportunity." — Grover Norquist, chief speechwriter for the US Chamber of Commerce.

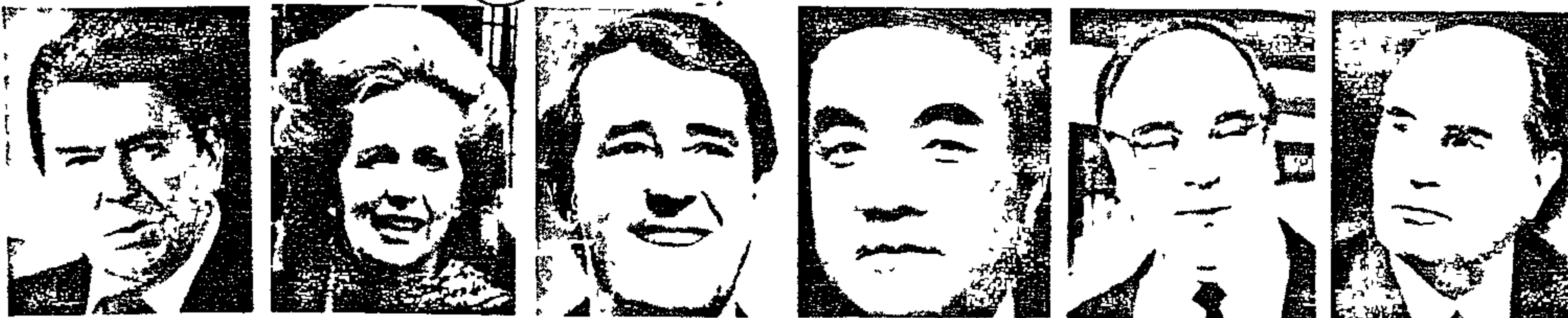
It has been suggested that the annual meetings of the International Monetary Fund and the World Bank are the Olympic

Games of money. One thing they'll have in common this year is that the Russians won't be there, although, to confuse matters, the South Africans will.

But the principal difference between the Games and the Washington meetings which start on September 24 is that the Games always produce results. Nothing much happens at the Bank-Fund meetings, as they are known. What emerges are concerns: one year it is inflation, another growth, then Third World poverty has its day, or the debt crisis.

Debate among the thousands of delegates, bankers, journalists and assorted hangers-on from the 149 member states tends to coalesce around the concerns that emerge. These reflect the issues which the major trading nations, the Group of Ten, or G10, consider as deserving of their combined attentions.

There is little doubt that this year attention will focus squarely on the amazing performance of the US economy, the might of



L to R: America's Reagan, Britain's Thatcher, Canada's Mulroney, Japan's Nakasone, Germany's Kohl, France's Mitterrand ... conservative tide

its currency, the level of its interest rates, the size of its deficits and the effects of all these on world prospects

President Ronald Reagan will be forgiven if, when he addresses delegates, he reminds them that he gave the world the formula for growth last year — and the year before. He will also be forgiven if he adds that, until they learn the lesson and apply it, the world outlook, with some exceptions, will remain bleak.

The truth of the matter is that Reagan has touched what Lord Keynes described as the "animal spirits" of the people. He has repeatedly told the American people that they are good at producing wealth, and deserving of its rewards. They have responded with a modern economic miracle, unthinkable by most professional economists.

In just four years, the Reagan administration has created a climate in which not less than a thousand billion dollars have been added to the US gross national product. To put this in perspective, SA's gnp runs at about \$80 billion.

This year America has added a further 2m civilian jobs to the numbers referred to by Grover Norquist, quoted above. Inflation is running just above 3% and, by most accounts, is unlikely to exceed 4% this year. Corporate profits are at an all-time high, with, more importantly, the vital indicator of future job creation — investment in new plant and equipment — running at \$325 billion, more than twice the level of 1976.

This week Herbert Giersch, the eminent German economist and president of the Kiel Institute of World Economics, pinpointed why America is racing ahead of its partners. In an interview with the *London Financial Times*, Giersch contrasted the flexibility of the US economy — in which wages fall in sympathy with capital shortages, deregulation of major industries and the creation of millions of new jobs — with what he terms the "Eurosclerosis" afflicting European nations.

Giersch said that real wages in Europe were probably about 10%-15% too high, while innovation remained stifled by corporatism, state controls and excessive

trade union power.

During a visit to the FM recently, Rimmer de Vries, economist at Morgan Guaranty and a member of *Time* magazine's Board of Economists, forecast that the dollar would remain strong for years to come.

"Reagan is going to work on (cutting)

WHEN GOLD GAINS

There have been occasions when gold responded bullishly to the annual meetings of the IMF and the World Bank.

In Belgrade in 1979 the American Treasury Secretary, William Miller, scorned gold as a haven for "quick buck artists," as he put it. He wasn't wrong. Gold took off during the meetings, putting on \$30 or \$40 in a day before peaking at \$850 in January 1980.

It is when what emerges from the meetings is a sense of uncertainty that gold tends to respond in this way. In the Carter years there was a perception, pervasive among Western investors, that the US had lost its way. It was no longer viewed as the leader of the West. The West was, therefore, leaderless and the future bleak and uncertain. This called for a movement into hard assets and the rush into gold and other speculative mediums fed on itself with rising prices attracting more demand.

High inflation, low growth, rising unemployment, social discontent, rising taxes — these are the First World signals for a rise in the gold price sparked off by anxious debate and gloomy fore-

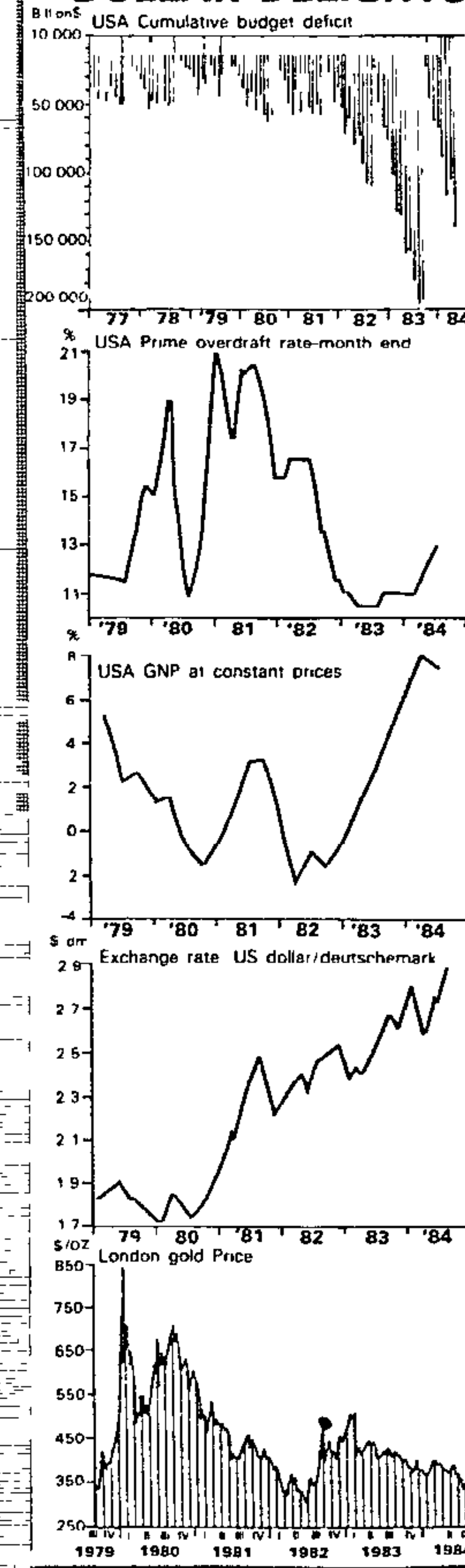
casts emerging from the annual Fund-Bank meetings.

It doesn't take a great deal of wisdom to see that such a scenario is unlikely later this month in Washington. America is very much in charge, it is the Russians who look a little depressed and disorganised as they play geriatric musical chairs in the Kremlin and wallow in their Vietnam, Afghanistan.

If real US interest rates stay where they are — prime at 12.5% minus inflation of, say, 3.5% — and the Reagan team entrench themselves at the White House, we can, to put it bluntly, kiss goodbye any meaningful rally in the bullion markets.

Of course, nothing is certain. Reagan is not young, his departure could spark nervousness throughout the world. And the Russians remain unpredictable. These are the factors bullion speculators and SA economic strategists must continually be weighing up. But it would be imprudent to expect the Washington meetings to provide any succour for gold at this time. In fact, the opposite could be the case.

DOLLAR DELIGHTS



Source: Standard Bank

(156) Fm 14/9/82
NO BEGGING BOWLS

Last year in Washington, and the previous year in Toronto, the Third World emerged battered from the annual IMF-World Bank meetings. Their calls for aid had been shunted aside. They were greeted with a wave of criticism of mismanagement, corruption, over-regulation, lack of individual opportunities, and excessive government spending.

Matters won't be any better for bearers of begging bowls this year. A tide of conservatism has swept the developed economies. Ronald Reagan's supply-side miracle will be the talking point of the meetings; Margaret Thatcher sits unchallenged in 10 Downing Street; Chancellor Helmut Kohl is cutting away at welfare trends in West Germany; Canada has elected conservative Brian Mulroney. And Japan's people work at supplying the world, and the US in particular, with a bewildering array of

manufactures.

Even in maverick France, the Francois Mitterrand administration has brought in a young pragmatist as PM to rescue it from welfare excesses.

Thus the non-oil producers in the Third World will have to approach the developed nations with strategies that appeal to the intellect and not to the heart. They will have to deal with realities. They will have to make the point that commodity prices are quoted in dollars — so their prices are rising, which makes marketing them more difficult. Further, high interest rates make stockpiling costly. Again, these high interest rates force commodity producers to push production, forcing them to offer quantities which depress prices.

They should come, too, armed with answers — not just problems. And one of those answers should not be that the US

should stop running large deficits, internally and externally. Firstly, these deficits — about \$120 billion on the trade account and \$170 billion internally — are becoming modest as ratios and, in the case of the trade account, America's partners are being provided with a massive market for their goods.

They should come with proposals to shift their economies away from controls towards free-market principles. They should demonstrate that they have learned from the American experience and they should heed George Gilder's comment that the entire wealth of America was built by people with zero assets.

If they adopt this approach they may attract a sympathetic hearing from the Reagan administration and its major partners. A bleeding heart performance will play to an empty house.

government spending," he told the FM, "with the dominant view prevailing that the recovery still has a way to go. Much of this is tied up with the President himself. Essentially he is an expansionary person."

In Europe, taxes are too high; government spending is too high; there is too much regulation; too much welfare spending; massive government deficits, low or no growth; high unemployment; excessive union settlements — in short, all the ills Reagan inherited from the Jimmy Carter years when inflation reached 14%, and the President told the people matters were serious and they were going to get worse.

And, sure enough, while he was there, they got worse.

All this has meaning for SA. In his last couple of years in office, Owen Horwood appeared, in retrospect, to lose the strength of his convictions. This is a judgment based on the facts of runaway government spending, which calls now for the radical and painful cure we are enduring.

Let's hope that Horwood's successor, Barend du Plessis, pays heed at his first Washington meetings to the message Reagan delivered last year and is likely to repeat later this month. "Trust the people. This is the crucial lesson of history, because

only when the human spirit is allowed to worship, invent, create and produce, only when individuals are given a personal stake in deciding their own destiny and benefiting from their own risks — only then do societies become dynamic, prosperous, progressive and free."

Ronald Reagan has translated his theories into practice, and they have worked. This will be the focus of attention in Washington, and it will be exceedingly difficult for the wellarists, the redistributionists and the like to argue with the results of the supply-side miracle.

The facts speak for themselves

Nkomati could be SA's bull point at the IMF

20/9/84

Star

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WASHINGTON — The Nkomati Accord continues to have positive spin-offs for South Africa in international politics, and this is likely to be reflected at the current annual meetings of the IMF and the World Bank, say SA representatives at the IMF.

South Africa, a curious anomaly at the International Monetary Fund where it is the only country not to have direct board representation, is not expected to be an issue at next week's annual meeting of the fund.

South Africa's continued membership of the fund has not been put on the agenda, and if the subject does come up in open debate it is unlikely to lead to any significant discussion.

They say the seven-nations summit in London in June adopted a very pragmatic line on economic problems.

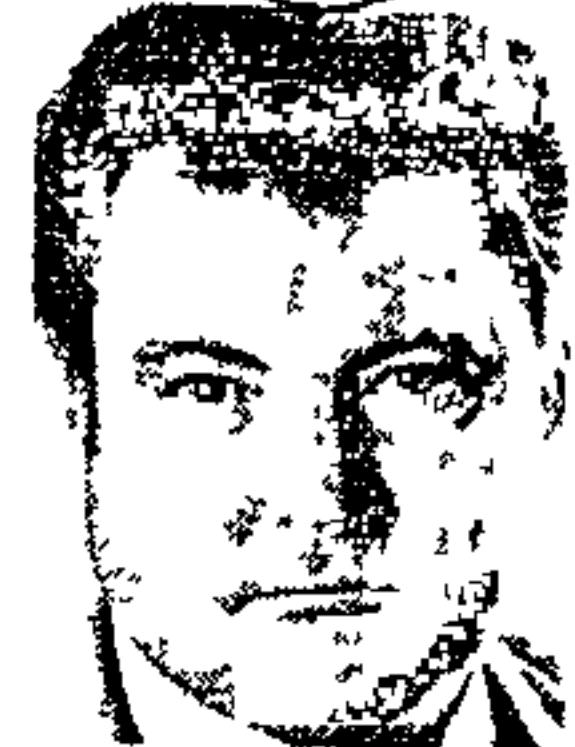
The final economic declaration from Lancaster House urged all trading countries, industrialised and developing alike, "to resist continuing protectionist pressures, to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in manufacturers and commodities services".

The Nkomati Accord demonstrated South Africa and Mozambique were willing to concentrate on dealing with each other on a trade basis rather than purely a political basis.

The declaration also said the



The Star's Financial Editor, Trevor Walker, reports from the annual meeting of the International Monetary Fund



Seven were greatly concerned about the acute problems of poverty and drought in Africa.

South African sources say the country is clearly in the position to play a very positive role in Southern Africa, and could be of major help to the World Bank in the implementation of realistic aid programmes in the region.

The summit declaration also stressed the central role of the IMF and the need for improved co-operation between the Fund and the World Bank.

Foreign exchange dealers say the dollar's overpowering strength is widely credited to opinion polls that show President Reagan as having a pro-business outlook and have led to his big lead over Democratic challenger Mr Walter Mondale in the presidential race.

It is the predominance of this "business" approach that is so satisfying to the South Africa officials attending the annual meeting.

Third World countries and the

debtor nations are expected to be highly critical of the current high interest rates and the phenomenally high level of the dollar at the meeting.

However, other than possibly France, the major industrial powers are unlikely to be too critical of US policies, ahead of the US presidential election.

Apart from the question of whether there should be a new issue of SDRs the need for a major overhaul of the international monetary system will also command attention, but this is expected to be held over until the release of an IMF study early next year.

Dollar leads the recovery FM 28/9/84



The problems of prosperity — at least that of the US — set the tone for this week's meetings in Washington of the International Monetary Fund (IMF) and the World Bank

Even for the less developed world, with the exception of sub-Saharan Africa, the meetings were a forum not for the dirge of recent years but rather something of a chronicle of achievement, plus a more cheerful outlook than has been possible in the recent past. Jacques de Larosiere, managing director of the IMF, was able in his annual address to refer to the "beneficial

The beneficial impact of US economic growth and the strong dollar, especially on most Third World economies, was the focus of attention at this year's annual meetings of the International Monetary Fund and World Bank in Washington. The FM's Editor, Stephen Mulholland, who is attending these meetings for the 16th consecutive year, writes that the dirge of past years has been transformed into a chronicle of achievement for all but sub-Saharan Africa.



effect" recovery in the West has had on the Third World

De Larosiere didn't say it, but clearly the powerful locomotive of US growth, together with a strong dollar, has pulled the world ahead. "Exports of developing coun-

tries to the industrial world," De Larosiere reported, "have grown rapidly over the past year (by 18% in dollar terms), imparting a badly needed stimulus to growth and contributing to a further improvement in balance-of-payments positions. The current

WORLD ECONOMY

Kissinger the pragmatist

By his own admission, Henry Kissinger is no economist. As he remarked in Washington this week, it is not often he finds himself before a "captive audience of economists and bankers — for reasons some of my former colleagues consider compelling."

But the droll Kissinger is a superb logician, an intellectual pragmatist and a political realist.

He applied his gifts to the problems of the world economy in the inaugural Mottatta Lecture in Washington, marking the tercentenary of the firm, which is part of the Standard Chartered group and the world's oldest gold bullion dealer.

Kissinger's basic proposition is that, while a global economy has developed, nations increasingly pursue their own interests without regard for the wider consequences of their actions. Now, supporters of a free market, including the FM, would suggest that this is how the market works to provide, over time, the best allocation of resources and division of labour.

Indeed, Kissinger conceded that the market "should be an incorruptible judge of the appropriateness of economic policies." However, he went on, "the dominance of the US in economic affairs, the imperfections in financial markets and the ability of countries to

delay remedial adjustment has meant the market can be ignored for at least a while. To be sure, the ultimate reckoning is all the more severe."

And this is the crunch — the temptation of governments to delay the bitter medicine of reform and of economic policies — usually involving some contraction of non-affordable expenditures — beyond their electoral period tends to be irresistible."

The point is that "bad economics seem to make good politics, at least in the short run."

Modern democracy has made all the more difficult the task of designing and implementing rational economic policies. Kissinger points out that after the fall of the Shah triggered a new inflationary spiral, *no national leader in office in a major democracy survived the next election.*

Thus, nations go down their own economic roads for their own reasons. They do so in a manner which would be unthinkable in a political context where prior consultation on steps affecting partners and allies is taken for granted. This last, incidentally, was a point not made by Kissinger; but which, had it been, could have strengthened his argument.

On this virulent strain of modern mercantilism, Kissinger commented "A

case in point is the unilateral decision by the US in 1971 to suspend the convertibility of the dollar (into gold) and to impose a 10% import surcharge. The effect was to overthrow the Bretton Woods arrangement affecting all countries — without prior consultation or notice to anyone. Comparable unilateralism has marked the Japanese restrictions on foreign investment and Europe's management of agricultural policy."

Japan, says Kissinger, "makes little pretence that its foreign economic policy is guided by a commitment to the free market play of forces. It is, instead, more or less explicitly geared to manipulate the trade system as it really operates to the nation's advantage. Japan is widely criticised for acting counter to existing economic theory. In fact, it is possible to argue that it is simply playing the *de facto* game more systematically and with greater coherence than anyone else."

To sum up, Kissinger believes that free trade is being stifled by the same political factors which hinder the adjustment mechanism of the economic system. "The growing influence of domestic political considerations in all democratic countries threatens the open trading system as we know it."

Turning to exchange rates, Kissinger found the present system of floating cur-

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account deficit of the non-oil developing countries in 1984 is likely to be less than \$50 billion, well under half the figure of three years ago. This deficit is equivalent to about 9% of their exports of goods and services, the lowest proportion in 20 years."

William Clausen, president of the World Bank, echoed De Larosiere's remarks in his address. "Since we gathered here a year ago, much progress has been made toward securing global economic recovery. The recovery is well under way in most developing countries and inflation has declined. Developing country economic performance in 1984 is likely to be better than in 1983, and improve even further in 1985."

Ronald Reagan, welcoming the delegates as head of state of the host nation, had plenty to crow about and made some election mileage from it all. "Our own economy," said the president, "is dramatically changed from only three years ago. Rewarding hard work and risk-taking has given birth to an American renaissance. Born in the safe harbour of freedom, economic growth gathered force, and rolled out in a rising tide that has reached distant shores."

"We are heartened that the strength of the US economy is helping lead the world

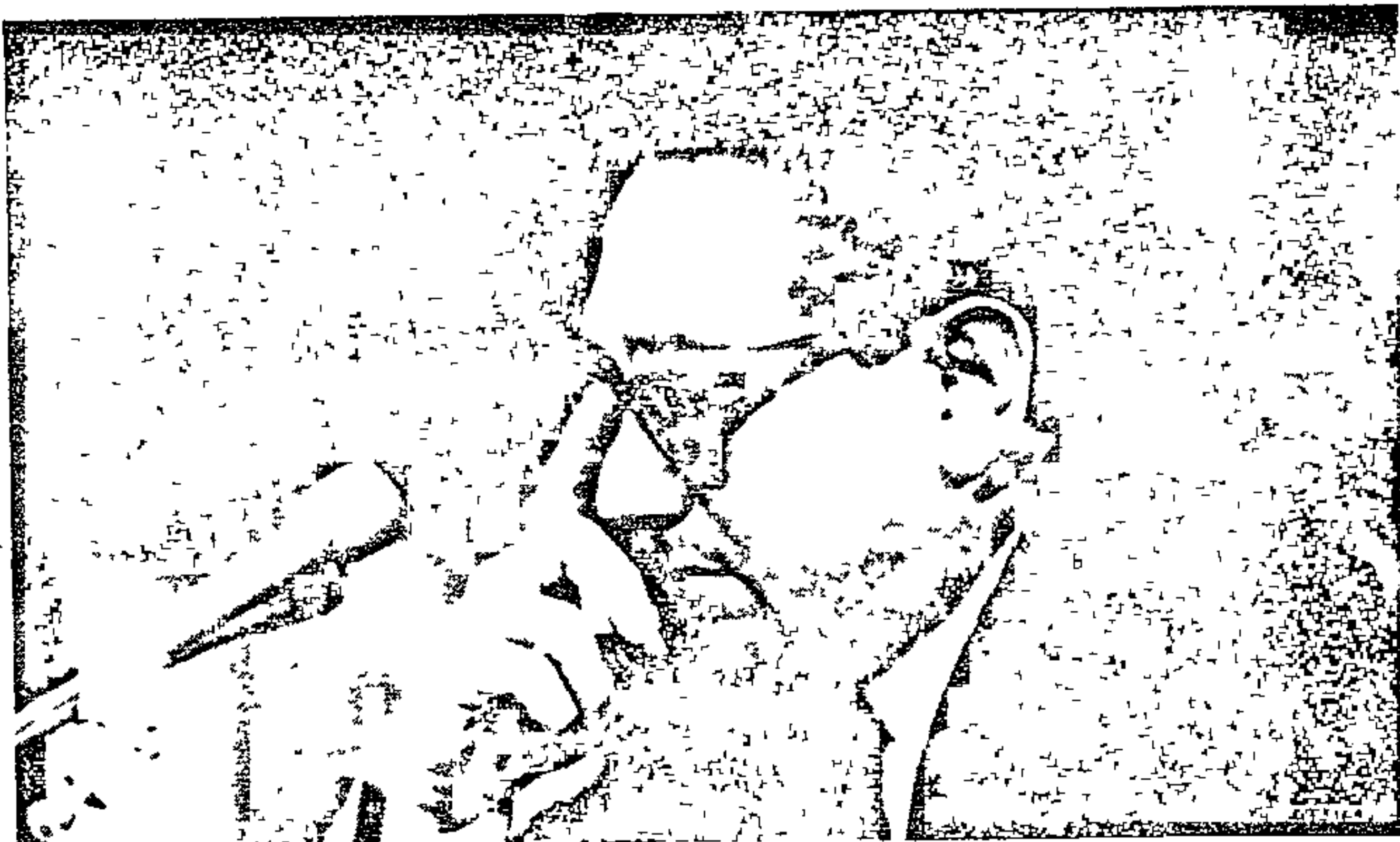
from recession toward a new period of lasting economic expansion, with lower rates of inflation in many countries. And we're convinced we can continue to offer this leadership in the future."

"The US has enjoyed 21 straight months of economic growth — the strongest growth since 1950. We've witnessed the creation of 6m jobs, and seen our expansion sustained by exceptionally low inflation. Consumer prices are rising by only around 4% now, compared with over 12% in 1980."

"And let me emphasise," added the president, "that we are determined to make another change from past policies — we intend to bring inflation down even more,

and we are determined to keep it down by continuing to restrain the growth of our government spending. We have already cut the rate of that spending growth by more than half, and we are pushing hard for an amendment to our constitution, placing mandatory limits on government's power to spend."

The theme of the need to curb government spending came through repeatedly, and nowhere was it better stated than in De Larosiere's remarks on the subject. "The way to achieve lower interest rates is not through accommodative monetary policy — this would simply rekindle inflationary fears — but through a fiscal policy that re-



Non-economist Kissinger ... a need for 'creativity'

rencies deficient. He pointed out, for example, that this regime failed to provide stability in the oil crisis — although he allowed that no exchange system could have produced stability when the oil price quintupled within a two-year period.

However, he feels again that it is the domestic political dimension which undermines the system. He concedes that "exchange rates tend to reflect, not cause (*FM italics*) domestic economic conditions."

"Incompatible national economic policies inevitably lead to uneven development and crises which will be reflected in the constant need for exchange rate adjustments. The US is therefore surely right in arguing that correct economic policies are the irreducible precondition to exchange rate stability. Confusion and growing resentment result, however," he added in a sideswipe at the Reagan administration, "when the US insists that it is the sole judge of what is the right mix of its own economic policies without regard to their impact on the rest of the world."

Kissinger made the accurate point that, no matter what the level of the dollar, the Americans can never win, such is the dominance of their economy. He reminded bankers and other delegates to the IMF meetings that five years ago

at Belgrade the weakness of the dollar was the dominant theme (and South Africans will remember those heady days of the gold boom).

So completely did the dollar dominate the meetings this year in Washington that it is worth giving Kissinger's views on the currency a little rein here.

"The strength of the American currency is such that whatever the value of the dollar, the US can take away with one hand what it gives with the other. Today the growth in imports, which is the consequence of a high dollar, is balanced by higher debt service costs and lower commodity prices for the developing countries. Tomorrow, a sharp and sustained drop in the value of the dollar could produce — as it did in the Seventies — major disruptive effects on international trade and finance. The policy question — unanswerable in the abstract — is whether a desirable one-time drop in the dollar is conceivable. Or whether once the dollar starts weakening, it will be difficult to re-establish confidence."

Without supplying specifics, Kissinger called for "new, more equitable, and less volatile exchange arrangements."

On the debt front, he raised the spectre, which central bankers are busy lay-

ing, of a full-scale political crisis. Drawing on his impeccable credentials as an historian, Kissinger remarks that the experience of the Thirties "suggests that the crisis in debt problems occurs not at the height of the crisis but when matters are improving. As the adjustment process begins to work, the political incentive to sustain it will weaken — even though, in many cases, the underlying imbalances will continue for a long time."

One shudders to think of the result of a melding of Kissinger's fears: a trade war, a currency panic and a debt-induced political crisis.

In his view, the world is today too complex for automatic adjusters. Man must run his own affairs in, of course, a "market-oriented" system. Thus, Kissinger the pragmatist called on the international financial community for a "new burst of creativity" to serve the "realisation that, in the long run, the national welfare can only be safeguarded in the framework of general welfare."

Should this vision not come to pass, we will presumably face the apocalypse his alternatives suggest and with the world turned on its head, gold back on its throne.

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duces the share of savings absorbed by the public sector. This involves action both to bring down fiscal deficits and to curb the growth of public expenditures. If government deficits remain high, markets will remain fearful that the temptation to monetise debt will become difficult to resist.

"Even if this temptation is resisted, the pre-emption of savings to finance fiscal deficits will eventually squeeze out interest-sensitive expenditure, particularly business investment. Of course, private spending can also be crowded out by tax-financed government outlays — it is therefore of the utmost importance that adequate restraint be exercised over government expenditures."

Thus, there is a firm perception abroad that growth flows not from government spending but from private effort and initiative in market-orientated systems. This is a lesson that must not be lost in SA.

The curse of protectionism was another preoccupation at the meetings, and President Reagan stressed his commitment to fight for freer world trade, reporting that "requests for protection on tuna, stainless steel flatware, shoes and copper have all been turned down" by his administration.

In addition to his opposition to trade barriers, Reagan also declared himself strongly in favour of the free flow of investment capital. But he advised countries that, in order to attract investment, it was necessary to create the right climate. "Policies that attract foreign investors are identical with those policies that encourage domestic savings and investments and contribute to the efficient use of scarce capital resources. positive real interest rates, a real-



US President Reagan ... leading out of recession



Germany's Stoltenberg ... only provide a framework

must be cut, and be seen to be cut, that labour markets must be free, that trends in taxation should be down, not up, reflecting the swing from public to private use of resources.

These are the building blocks of economic prosperity on which America has surged ahead, drawing many others in its wake. As West German Finance Minister Gerhard Stoltenberg put it "Government itself cannot secure lasting growth. Its most effective contribution is to provide a framework of stability within which individual initiative can develop."



World Bank's Clausen ... the medicine is working

istic exchange rate; free convertibility of currency; and a respect for property rights — in short, an economic environment that allows investors to earn a fair, real after-tax rate of return."

For SA, it was most significant that Reagan devoted a large part of his concluding remarks to the issue of sub-Saharan Africa.

He called the plight of the region "a subject of special interest and concern to our government." He referred to plans for direct US aid of \$1.5 billion over the next few years and welcomed new initiatives by the World Bank to focus attention on the problems of sub-Saharan Africa. Since SA is an inextricable part of the region, it makes less sense than ever for it to become the focus of activist disinvestment groups at precisely the stage when the world aims to uplift the region.

It is hardly logical to pump billions into an area while at the same time acting in a manner which seeks to weaken the most powerful economic catalyst there. That would be absurd.

This is a theme SA should exploit. But it can only do so if it shows itself to be in step with the prevailing convictions of the developed world that government spending



IMF's De Larosiere ... world benefits from recovery

INTERNATIONAL MONETARY FUND

APRIL 1985 - OCT 1987

IMF predicts modest growth for industrial nations

WASHINGTON— The industrial countries of the world, coming off their best economic performance since 1976, will enjoy moderate, if unspectacular, growth this year and in 1986, the International Monetary Fund predicted yesterday.

In its annual assessment of world-economic

prospects, the IMF staff forecast economic growth in the industrial countries of 3,1 percent in 1985 and 3 percent in 1986. That compares with growth of 2,6 percent in 1983 and 4,9 per cent in 1984, the best performance since 1976.

The growth this year and next will come despite the fact that unemployment levels in Western Europe remain at record post-war levels and the United States is running huge government budget deficits, the IMF said.

In developing countries, the IMF forecast a 'modest acceleration' in economic growth this year but pointed out that the recovery in these countries has been very

uneven

Many African countries, hard hit by drought and starvation, have had economic growth rates well below the increase in their population levels, meaning that the standard of living in these countries has declined substantially.

For all developing countries, the rate of growth will be 4 percent this year and 4,5 per cent in 1986 following growth last year of 3,7 percent, the IMF predicted.

The fund's generally upbeat report was released as leaders of the world's seven leading industrial democracies were preparing to convene in Bonn for their annual economic summit. (Sapa-AP)

Debt crisis on mend, says IMF

WASHINGTON — The world debt crisis is on the mend but there is little margin for error, International Monetary Fund managing director, Jacques de Larosiere, said.

In an address to a banking group, he said that commercial banks must continue to maintain prudent financial flows to debtor countries during the economic adjustment process.

It was Mr De Larosiere's first public statement since last month's semi-annual meeting of the IMF and the World Bank.

He said debtor countries had taken herculean measures to reform their badly unbalanced economies, adding that 'this adjustment was costly in social and political terms'.

New phase

Mr De Larosiere said the painful process has worked, thus far, and that the debt crisis has entered a new, but still highly delicate phase.

'We now appear to have passed the turning point,' he said before the spring meeting of the Institute of International Finance, an organisation of commercial banks.

He said financing requirements of indebted developing countries had dropped from \$150bn to \$47bn between 1981 and 1984.

'But all this must not divert attention from the fact that there is still a long and potentially hazardous road to travel before normal financial relations are restored,' he said.

Mr De Larosiere noted that virulent inflation in a number of indebted countries remains a threatening aspect of the current situation.

'It is a manifestation of lagging domestic adjustment and must be considered one of the most disturbing features of recent economic developments,' he said.

Satisfactory resolution

of the debt problems and a return to normal market financing was a feasible and realistic goal, if certain steps are taken, he said.

Mr De Larosiere said that debtor countries must continue their economic reforms if they are to achieve the five to six percent export growth needed to 'regain financial viability and sustained growth.'

At the same time, he said, 'industrial countries must take steps to keep sustained growth in their economies continuing so that they can serve as much-needed markets for debtor country products'.

Any pullback from this overall process could lead to increased difficulty for the international system, he said.

Meanwhile, in Caracas, regional senior officials and economists say the recent improvements in Latin American debt rescheduling terms are not enough to ensure sustained economic recovery and political stability in these countries.

Despite novel World Bank guarantees for commercial bank loans, in a Chile rescheduling package revealed last week, the general failure of industrial nations to back new debt initiatives means the region still faces grave repayment difficulties this year.

Brazil

Latin American officials say strategy for dealing with the debt relies too much on continuing strength of the US economy, whose 6.8 percent surge last year helped cut the region's debt service ratio slightly to 35 percent from 36 percent in 1983.

Some independent economists in Brazil say the country's trade surplus could be \$9bn, against the officially pre-

dicted \$11.5bn and \$13bn in 1984, after a poor start to the year.

Argentina is in another race against time to have a new IMF agreement in place and fresh funds flowing before June when US banking regulators meet to assess country loans. Senior Peruvian economy ministry officials also said they feared a downgrading of some loans to value-impaired.

The marked reluctance of commercial banks to increase their exposure in Latin America is seen as a possible factor in the onset of new liquidity problems.

A senior Colombian central bank official said he saw new liquidity from creditor banks as the key factor in helping resolve the foreign debt problem, and was optimistic this could be achieved for his country.

Colombia, the only major Latin American debtor country to have avoided rescheduling, is currently seeking a \$1bn package of loans from commercial banks and official institutions.

Mexico

Mexico is gearing its borrowing plans, also set at \$1bn in 1985, towards specific project lending which officials there feel will win a better reception from banks.

However, in general terms Latin America has received little response to its calls for more official lending via increased World Bank capital, new SDR allocations and other ways of alleviating the debt burden.

The recent summit of seven industrial nations in Bonn proved a deep disappointment for Latin America, which had sent what it saw as a moderate document signed by 11 presidents seeking a dialogue on the debt. — (Sapa-Reuter)

Togo gets loan

WASHINGTON — The West African Republic of Togo will get a loan of about R30 million, the International Monetary Fund announced yesterday.

It said Togo's international position would continue to depend on money from abroad, in-

cluding loans on easy terms from governments and inter-governmental bodies

In return for this loan, the Togolese Government had promised to cut its government deficit, help farmers and improve private enterprise

— Sapa-AP

Soweto 23/5/85

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Nyerere blames crisis on socialist policies

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NAIROBI—Tanzanian President Julius Nyerere acknowledged in an interview released yesterday that the sweeping socialist policies he instigated in 1967 were partly to blame for the country's current economic crisis.

Mr Nyerere, due to step down this year, told Norway's State broadcasting organisation that the goal of self-reliance set out 18 years ago had not been reached and that his Government had made 'a number of mistakes'.

Too many enterprises were nationalised, said the President, who is touring Nordic Countries, which provide the bulk of Tanzania's R1,2 billion-a-year aid.

He added that it had also been a mistake to replace the co-operative movement with loss-making centralised State firms.

But he said that in spite

of its economic difficulties, Tanzania had rejected a long-stalled loan agreement with the International Monetary Fund because of its conditions, which he did not divulge.

'We would have reached breaking point and I would have been forced to use police against our own people,' he said.

Deepened

Tanzania broke off talks with the IMF in 1980, accusing it of demanding unacceptably harsh conditions such as a huge devaluation, freezing of Government prices and spending cuts.

The talks later resumed as Tanzania's economic crisis deepened. Output in almost every sector has fallen over the years, industrial plants are working at less than 40 percent of capacity and there is a chronic foreign exchange shortage.

Mr Nyerere said Tanzania would continue to negotiate with the IMF until it reached an acceptable agreement but said the fund was 'an instrument of destabilisation of the Third World'.

He said that donor countries and banks used the IMF to extract economic reforms from poor countries.

'It is a new conditionality (donors say) if you do not have an agreement with the IMF, we will not give you aid'.

'Completely frankly, at present, an agreement with the IMF is a certificate of respectability, a certificate of humiliation, a certificate of neocolonialism,' he said.

It was iniquitous that starving Africa should have to pay R24 billion in interest on its R300 billion of debts this year — (Sapa-Reuter)

ATK 643 29/5/85 (156) (EB)

Nyerere may soon come to terms with the IMF

Argus Foreign Service

NAIROBI — While African bank governors continue to attack the IMF's Africa policies, reports from Dar es Salaam indicated that Africa's arch-opponent of the IMF, President Julius Nyerere of Tanzania, may soon come to terms with it.

West Germany's Economic Co-operation Minister, Jurgen Warnke, quoted Nyerere as telling him that although the

IMF loan terms were "a bitter pill to swallow", he was now prepared to come to an agreement with it if the terms were "bearable".

Since negotiations between the IMF and Nyerere broke down in 1980, Nyerere has been leading an international campaign to persuade the IMF that its terms for loans to developing countries, particularly its demands for devaluation, are too tough.

In Nairobi, the governor of

Kenya's Central Bank, Mr Philip Ndegwa, warned that if Africa was not given a greater flow of concessionary resources, the future would be "horrible" and the economies of some countries would disintegrate.

Claiming that the role of the World Bank in Africa would be critical for the next 15 or 20 years, he accused donor countries of using Africa's poor economic performance to justify their reduced levels of support for the continent.

IMF bars Zambia from drawing \$225m in loans

LUSAKA—The International Monetary Fund has barred Zambia from drawing about \$225 million in loans approved last year because the country failed to meet conditions for the funds, an official said yesterday.

Mr Jukka Pajjarvi, the IMF representative in Lusaka, declined to say what conditions Zambia had failed to meet, but there was speculation the Government had refused to devalue its currency, the kwacha.

Zambia, long dependent on copper exports for foreign currency, has endured years of economic decline as copper prices have plunged on the world market and foreign debts have increased. The IMF has set strict conditions for economic reform, such as reduced consumer subsidies with resulting price increases, in return for continued loans.

President Kenneth Kaunda last month criticized the IMF for imposing drastic conditions for loans to poor Third World countries, which he said would create tension and dissatisfaction. He said then that devaluing Zambia's currency would aggravate rather than ease the nation's economic woes.

Zambia met IMF conditions last year, enabling it to draw \$200 million worth of IMF credits, leaving another \$225 million still to be drawn this year. (Sapa-AP)

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Now a rare peek behind the IMF's paper curtain

WASHINGTON — Abnormally large military budgets, overseas trips by officials and getting "ghost" workers off the public payroll are some of the things the International Monetary Fund questions governments about, a fund official has disclosed in a rare public look at its work.

The fund makes regular checks on all 148 member governments, including the United States. Many prosperous countries have borrowed from it in the past and may have to do so again.

One of the few international bodies with effective control, the fund plays the stern banker to poor governments that now owe it about \$35-billion. When they ask for loans, the fund requires promises on their future policies and it cuts off the money if the promises are not kept.

Commercial banks wait for its approval of a country's policies before lending much larger sums.

SENSITIVE SUBJECTS

Like any banker, the fund dislikes talking in public about its clients' business. Only the most formal meetings are public. Its voluminous reports avoid specific criticisms. Officials usually refuse to be quoted, even anonymously.

Few ever speak to outsiders of sensitive subjects like military spending.

Mr Peter Heller, chief of its Government Expenditure Analysis Division, does not name countries but he does make it clear that these issues are raised behind closed doors.

He lifts the paper curtain a little for readers of "Finance and Development", a quarterly magazine of the fund and its sister organisation the World Bank.

EXCEPTION

"It may be difficult to judge the appropriateness of the sectoral balance of expenditure, but abnormally large or growing shares of expenditure on, say, administration or defence may call for analysis and discussion," he writes in the June issue.

The United States has suggested that more of the fund's discussions with member governments be made public, including criticism of the United States.

Treasury Secretary Mr Donald Regan, now President Ronald Reagan's chief of staff, said that everyone else criticises US policy and he saw no reason why the fund should be an exception.

The idea won little international support but may come up

again when improvements in the world monetary system are discussed in Tokyo later this month.

"Often, an examination of (a country's) budget suggests large and questionable expenditure on items such as foreign embassies, overseas travel and allowances," Mr Heller writes.

"Travel by senior public servants as a 'backdoor' benefit proves costly to the government, both financially and in terms of lost productivity."

Sometimes the way the money is actually spent may make as many problems as the formal budget, he adds.

PAYMENT VOUCHERS

"Problems of execution may include expenditure for purposes not sanctioned in the budget, improper use of payment vouchers, high-cost purchasing and procurement, and payments to so-called 'ghost workers,'" the article says.

Governments sometimes make efforts to limit new hiring and to get the ghost workers off the payroll.

"Countries with systems of guaranteed employment for secondary school and university graduates have occasionally withheld this guarantee," he says — Sapa-AP.

Debts: New threat to IMF

The International Monetary Fund has been asked to give countries owing about R2 000 billion more time to pay off their debts.
Associated Press reports from Washington

The situation has become more acute because of falling standards of living that were already low in poor countries, the rising totals of interest owed and the shortage of new money coming in.

Debtor nations say the United States is responsible for many of their problems.

The rise in interest rates they have trouble paying is blamed on the US budget deficit. And they earn less money because the United States and other wealthy countries are cutting down on foreign purchases in order to protect home industries.

Meanwhile, newly-elected governments are under intense pressure to act after years of authoritarian rule.

Should debtor countries start by-passing the fund and its plans, banks and the rest of the international financial system will lose an anchor that they see as important in keeping things stable.

President Fidel Castro of Cuba, no longer a member of the fund, arranged to delay his own repayments to the Soviet Union and other creditors. Then he issued another call this week to Latin Americans to stop making their repayments altogether.

President Alan Garcia of Peru announced at his inauguration that he would pay banks

in the United States and elsewhere no more than one dollar out of every 10 that Peru can earn by selling its goods in other countries. That would mean about about R666 million in payments this year instead of about R7,8 billion that creditors say is due to them.

Investments

The dean of Latin American economists, 85-year-old Mr Raul Prebisch, had still another idea.

Debtor nations should put aside the money to pay their debts but turn over only half of it to the creditors, he said, keeping the other half for investments at home. Mr Prebisch, an Argentinian, has been a trusted adviser of Argentina's President Raul Alfonsin.

A meeting of Latin American leaders in Mexico last month discussed similar plans. A cap on payments would especially worry the international financial world if it came from Mexico, the world's number two debtor after Brazil.

A plan carefully crafted by the fund has already put off some of Mexico's repayments for as long as 14 years, and Mexico's handling of its problem has been held up as a model.

But Latin America is not the only problem area for the IMF.

Nigeria, the biggest African country, has been resisting devaluation of its currency and a deal with the fund under both military and civilian governments.

Sudan and others have been falling behind on interest payments not only to governments and banks but to the fund itself, something that was just not done in past years.

THE International Monetary Fund, a bastion of conservative policy, faces a new threat from countries that want more time to deal with repayment of about about R2 000 billion in debts.

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South Africa's unilateral decision to declare a debt moratorium continues to highlight the difficulties the International Monetary Fund (IMF) will have from now on in getting developing countries to adopt austerity measures to solve their payments problems

South Africa has set the precedent, it merely remains for a Third World debtor to follow the example

Yesterday the IMF released its annual report ahead of its annual meeting early next month and firmly rejected growing complaints from developing countries about adjustment policies prescribed for solving their debt crises and asserted that the foundation was being laid for future economic growth

The *Financial Times* says today that with Latin American countries becoming especially restive about their debt burdens, and concerns rising about Mexico's ability to service its rescheduled debt following its devastating earthquake, the IMF's annual report will be seen as a clear statement of resistance to any major change of approach to dealing with the international debt problem

However, there is growing recognition among the industrialised countries that more flexibility may be needed in nursing the world through the debt crisis

A senior US Treasury official said in Washington yesterday that the US saw the need for a

IMF may rethink its debt strategy after 'standstill'

larger role for the World Bank and for a modification of the current strategy for dealing with the debt crisis

He also indicated that the US was becoming more and more concerned about the failure of the international banking system to provide more funds to heavily indebted countries

But he added that the US saw no need for an early increase in the World Bank's capital, given its current lending goal of between \$40 billion and \$45 billion

WORLD ECONOMY

"It is true we are reviewing the debt situation," the official said "We have always said that the debt strategy is flexible and there is a growing view that the situation is changing"

The IMF says in its report that although actions by industrial countries are needed to improve the performance of the world economy, the principle responsibility for ensuring that developing countries strengthen their economies lies with the countries themselves

The fund thus remains firm in its belief that the economic austerity packages, which the IMF has insisted upon in return for loans, and the economic adjustments which they are designed to achieve, are essential as a foundation for future economic growth

The IMF also makes clear that increased co-ordination of economic policies between industrialised countries are essential in "any serious attempt to achieve greater exchange rate stability"

It says that exchange rate volatility over the past two years has tended to create changes in international competitiveness between countries that have tended to increase rather than diminish trade imbalances. This has worked against the need to re-establish a stable pattern of current account positions

COMMERCIAL BANKS

The release of the IMF's report follows the announcement by the group of five major industrial countries on Sunday of a new effort to improve the co-ordination of their economic policies

Concern about the flow of finance to developing countries was underlined yesterday by a new study from the Institute for International Economics, a Washington-based research organisation. The institute says that even without a new eruption of the debt crisis a satisfactory recovery of the debtor countries will require additional capital flows of about \$15-20 bn

It calls for a decision to increase the World Bank's capital by \$40 billion so as to increase its lending by \$4 billion to \$5 billion. — *Financial Times*

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Third World calls on IMF to cut SA ties

Dispatch Bureau

WASHINGTON — The annual International Monetary Fund (IMF) and World Bank meetings began here this week with a call by developing nations for the fund to sever its ties with South Africa

The semi-official Group of 24 (G 24), chaired by the Ethiopian Finance Minister, Mr Tesfaye Dinka, demanded in a communique that the fund "include urgently in the agenda of the board of governors an item which would specifically deal with the fund's relationship with South Africa"

This is believed to be the first time that fund members have made an overt call to oust a fellow member and it injected a rare political note into the proceedings

While South Africa has maintained its contributions to the fund, bank and their related organs, it has no effective vote on the fund's executive committee since being dropped from the Pacific rim voting bloc at Australia's request

The G 24 communique requested the board of governors to consider South Africa's continued IMF membership in the light of the "relevant resolutions of the UN General Assembly and the Articles of Agreement between the UN and the IMF."

THE International Monetary Fund (IMF) is not popular in Africa, but its prescriptions for the continent's economic ills are generally being swallowed all the same, a Reuters survey shows.

The image of the Washington-based fund in Africa is often that of a body whose harsh austerity recommendations bring unacceptable hardship and take little account of the needs of the common people.

And while many African governments recognise the problems of external debt, import dependence and slumping productivity need tough action, they are reluctant for political reasons to let the IMF be seen to take that action for them.

Nigeria last December called off protracted negotiations with the IMF over a \$2.5bn (about R5.2bn) support package, but has since brought in austerity measures demanded by the fund as conditions for the loan.

Soon after taking power in a coup six months ago, Babangida said he wanted to resolve the question of the loan talks with the fund. He recognised its political sensitivity and threw the issue open to a national debate.

The response was a media blitz in which those who spoke in favour of the loan were drowned by a chorus of emotional opposition which focused on a reluctance to have the fund move in to solve Nigeria's economic problems.

The IMF's conditions for the Nigerian loan were seen as too harsh, and the military government overthrown by Babangida had already rejected demands for a sharp devaluation, an end to fuel subsidies and liberalisation of trade.

But while the rejection of the IMF loan was popular with a broad cross section of the Nigerian public, going it alone without the fund poses questions about Nigeria's ability to reach

Africa is swallowing the IMF medicine

GILES ELGOOD in Lagos

an urgently needed rescheduling deal with creditors.

Nigeria has called for talks with creditor commercial banks, but foreign governments, who are also important lenders, have long made it clear that they will not reschedule or provide more credit without an agreement with the IMF.

bia's sad economic plight by pressuring the government to abolish subsidies on most goods, thus fuelling inflation, officially 20% but probably much higher.

Neighbouring Tanzania, which has for the last five years been resisting the fund's economic prescriptions, said this month the IMF does not act in Africa's interests and urged an alternative.

"I therefore call upon African countries to intensify efforts towards the creation of the African Monetary Fund, which will be capable of meeting our development needs," Finance Minister Cleopas Msuya said.

The IMF can, however, record at least one success in Africa, with Ghana doing everything it recommended and, after years of decline, showing signs of healthy growth in 1984 and 1985, according to diplomats in Accra.

Ghana's measures, which include massive devaluation of the once worthless cedi aimed at boosting commodity exports and slimming down a bloated public sector, have been rewarded with large doses of Western aid.

There are signs too that Burkina Faso, despite the radical slant of the government of Captain Thomas Sankara, may turn to the fund.

Like Nigeria, Burkina faces the problem of debt rescheduling. Major

lenders such as France have made it clear that agreement on that must be with the Paris Club of creditor nations, who usually require a prior deal with the IMF.

In Guinea, the dogmatic socialism of former leader Ahmed Sekou Toure meant there was little prospect of any dealings with the Washington-based IMF, despite the economic decay of what was once seen as one of the potentially richest states in Africa.

But since his death in 1984, the military government of Colonel Lansana Conte has agreed to borrow from the fund, pledged to cut down the public sector and replaced the country's worthless currency, the syli.

Mali, another left-leaning state faced with grave economic difficulties, has also borrowed from the IMF and President Moussa Traore has pledged to trim the public sector and encourage private enterprise.

Zaire, once dubbed a "basket case" credit risk by economists, has been able to benefit from Western fears that its strategic copper and cobalt reserves could fall into Soviet hands.

It is now pressing creditors to accept lighter debt repayments, saying it needs extra funds to finance its public investment programme, and help from economic partners to enable it to continue a three-year-old IMF austerity programme.

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Little to impress

There is little to impress our International Monetary Fund (IMF) guests now in SA. With the economic and political situations deteriorating, discussions with the four-person delegation will be miserable (the raids on neighbouring states do not help).

With severe cash flow problems and capital continuing to flow out, new loans would provide welcome respite. However, any idea that the IMF will grant additional finance is wishful thinking, and this is not the object of the delegation, headed by Hollander Helen Junz. The IMF routinely visits SA annually (usually just before the Budget).

The capital account remains a major constraint. After a R10,4 billion capital outflow in 1985 the flood slowed significantly in the first two months of this year, only to flow heavily again in March and April.

March saw pressure build up against the rand and in April SA made its first post-moratorium foreign debt repayment (thought to be around \$400m), paid oil creditors a similar amount, and made the second repayment of a 1982 IMF loan (R192m). In total an estimated R2,5 billion flowed out by mid-May, though first-quarter figures are still being compiled by the Reserve Bank.

In contrast, the current account recorded an annualised R2 billion surplus in the first quarter. Barclays notes that "although a direct comparison is complicated by the different time periods, it certainly appears as if a reduction in net reserves is occurring."

Part of the R2,5 billion outflow was met by gold swaps (thought to be R500m) and a R200m reduction in cash holdings.

To Volkskas economist Adam Jacobs, the decline in the rand indicates that capital outflows are larger than the current account surplus — "and this is despite no noticeable increase in imports."

Is the worst over, at least for 1986? Anglo economist Aubrey Dickman thinks so. "Assuming the Bank's \$2,2 billion estimate of total outflows for 1986, we seem to have repaid over half."

But, although the situation could improve this year, the problem is in the years ahead. Outflows and political pressure will continue — neutralising any current account surplus. It is now clear that most of the \$2,2 billion due this year (\$700m of which is in the standstill net) will not be rolled over.

Exporting capital is serious for any developing country, most of all one experiencing

political turmoil, unemployment which some say is near 4m, poor growth and minimal infrastructural investment. Not only the rand but growth and employment — hence political stability — will remain hard hit so long as SA has to pay foreign creditors out of the current account surplus.

Says Dickman: "Without ignoring other factors that contribute towards growth, there is no doubt that growth must be accompanied by capital inflows."

Jacobs says, as a rule of thumb, SA requires foreign capital to provide 10% of that needed to attain a 3%-4% growth rate. Most growth is generated through domestic savings. Dickman adds that this 10%, seemingly small but vital, has been cut to virtually nothing.

There has been a capital outflow for seven of the 10 years since 1976. A net R12,4 billion has been exported: a net R17,4 billion short-term capital left and a net R5 billion long-term flowed in (see table). This partly explains our present predicament.

In 1982, SA was granted a one billion Special Drawing Right (SDR) IMF facility and took up SDR795m — SDR159m in terms of the Normal Standing Facility (SA was due SDR364m but did not take it all up as the balance of payments looked healthy then) and the rest under the Compensatory Financing Facility.

SDR50m was repaid in May 1983, the rest is due between November 1985-November 1987 in three-monthly instalments. There was a repayment in February (SDR79,5m), the recent R192m, and the next will be in August. Interest varying between 6%-7% has been paid quarterly since the drawdown. This is the only outstanding IMF loan to SA — and likely to be the last for some time. ■

DR BEN VOSLOO

In praise of opportunity



of a recent IMF visit and his views on the path SA should follow.

FM What was your impression of the IMF mission's awareness of the problems facing SA?

Vosloo: The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad. **How can the small business sector help long-term growth prospects?**

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of

Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the *FM* on the role of his organisation in the light

institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2 000 enquiries per month. That figure is now 14 000.

What of the informal sector?

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

What role does government have?

The role of the State has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need some control, but it must be selective, a matter of degree — perfect competition exists only in theory.

Surely political stability is a precursor to economic participation by all groups?

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of

SA, there is a history of white settlement here, a firmly rooted European ideal. It is dysfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

What advantages are to be gained by privatisation?

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

The SBDC has gained much publicity and success in its five years. Has it the resources to meet the challenge of the future?

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11,2m in 1981-1982 and R101,8m last year. For the expenditure of R275m, 46 000 jobs have been created and 25 000 retained. (The) SBDC does not always get recognition for its efforts.

DR BEN VOSLOO

In praise of opportunity

FACE
TO FACE

1a



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UN academics swipe at SA, IMF collusion

DMC 018P
22/8/86
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HARARE — Delegates at a three-day United Nations seminar on SWA/Namibia have strongly denounced the collusion between South Africa and the International Monetary Fund (IMF) in the economic destabilisation of the Frontline States

In a 14-point resolution adopted at the end of the seminar earlier this week, about 20 academics and scholars also condemned the Reagan Administration for its support of Unita rebels in Angola

The participants at the seminar, organised by the Southern African Universities Social Sciences Conference and the United Nations Council for Namibia, agreed "the costs of destabilisation increases the debt burden of the Frontline States which is then compounded by IMF strict conditionali-

ties"

The resolution called for immediate comprehensive and mandatory sanctions against Pretoria, and urged the Non-Aligned Movement (NAM) to consider seriously what effective measures member countries ought to take against the Western "patrons" of South Africa and transnational corporations operating in South Africa and SWA/Namibia

The resolution said such companies and states "prolong the suffering of the peoples of South Africa and Namibia"

The document urged the NAM to consider practical steps to support the Frontline States in the event of sanctions against South Africa and retaliatory measures by South Africa — Sapa

Gold a low key item on IMF agenda

From John Spira at the World Bank and International Monetary Fund annual meeting in Washington.

The Third World debt crisis, interest rates and the value of the US dollar are the principal items on the agenda of the World Bank and international Monetary Fund annual meetings, which officially began tomorrow.

While these are issues not of direct interest to South Africa (these meetings were previously of crucial significance, since they included heated debates on the role of gold in the world's monetary system), they are nevertheless of appreciable indirect import, since decisions taken on such issues could impact on the value of South Africa's largest export commodity.

And right now, gold is highly susceptible to shifts in sentiment that might influence its value in world markets — either way.

These factors apart, South Africa has already been in the firing line at one of the several meetings that have preceded the official commencement of proceedings here.

A communique issued on Saturday by the so-called Group of 24 (representing largely the Third World nations) stated that they had urged the IMF "to include, urgently in the agenda of the Board of Governors of the Fund an item which would specifically deal with the fund's relationship with South Africa."

Asked subsequently to expand on this statement, a spokesman for the Group of 24 said South Africa should not be a beneficiary of the Fund's facilities. He

declined to go so far as to say that the Group wanted South Africa's membership of the IMF to be terminated.

Observers here point out, however, that by singling out South Africa in this particular context, the Group of 24 is in effect trying to introduce a political element into what is traditionally — and very strictly — an apolitical forum.

This is a state of play which the Fund has always been at pains to avoid and commentators therefore believe that the fund will diplomatically sidestep the Group of 24 recommendation in the hope that it will go away — for the time being, at least.

The major feature of the week's deliberations could well be a confrontation between the Americans on the one hand and the Japanese and the West Germans on the other, with the former likely to press for interest rate cuts by the two countries and the Japanese and Germans determined to resist such cuts.

The US stance stems from its hitherto abortive efforts to reduce its \$170 billion trade deficit. It contends that lower interest rates in Japan and Germany will stimulate those economies to a point where they will import sufficient from the US to make a dent in its deficit.

Because of repeated refusals by Japan and West Germany to

lower their interest rates, US Treasury Secretary James Baker made a mild threat last week to let the dollar decline further.

A lower dollar would, in theory, also help the trade deficit by raising the cost of foreign imports. But, in so doing, it could also harm the economies of Japan and West Germany, both of whose economies rely, far more than most others, on exports for their economic growth.

Equally divisive will be the perennial and vexing question of how to solve the Third World debt problem.

It has been a year since Mr Baker unveiled what was billed as a major new approach to the international debt crisis — one that shifted the focus from austerity and recession in the debtor countries to rekindling economic growth.

It was supposed to be a three year, three-legged programme involving commercial banks, official development institutions like the World Bank and the debtor nations themselves. There have been few tangible results.

Mr Baker called on commercial banks to boost their lending to debtor nations by \$6 billion to \$7 billion a year for the next three years. Yet to date commercial banks have lent virtually no new money.

Development institutions were supposed to step up their lending by \$3 billion a year. Yet the world bank's disbursements to these countries did not increase at all in the year to June 30 1986, although it did increase its commitments to make future loans by 30 percent.

In the debtor countries themselves, there has, with the exception of Brazil, been no economic growth to speak of.

Consequently, many debtors are unable to cope with their loans even after deferring payments on principal, rescheduling interest payments and negotiating new loans just to pay interest.

The failure of this strategy has led debtors to advance even more radical proposals.

Peru, for example, has proposed limiting debt service to 10 percent of its export earnings. Brazil is considering limiting its interest payments to less than half of the scheduled amounts and Mexico has secured a concession from the IMF to link its interest payments to the price of oil. Argentina has a plan to link interest payments to the price of wheat.

These are issues which will come up for discussion in the next couple of days.

The insurmountable problems which such issues raise suggest that gold is more likely to be a gainer than a loser by the end of the week.

29/9/86 BUS DAY (156) Bid to eject SA from IMF

WASHINGTON — Finance ministers from developing countries in Africa, Latin America and Asia urged the International Monetary Fund (IMF) at the weekend to set in motion technical procedures that could lead to South Africa being thrown out of the 151-nation organisation.

Alternatively the move could, if successful, reduce IMF benefits to the Pretoria government.

The "Group of 24" developing nations within the IMF called for discussion of an agenda item at the IMF-World Bank annual meeting which takes place in Washington this week. The "agenda

item" will deal with the IMF's "relationship with South Africa".

When asked to elaborate on the "item", Ethiopian Finance Minister Tesfaye Dinka, the G-24 chairman, declined to actually say the group was calling for SA's ejection from the IMF.

He told a Press conference, however, that most of the G-24 representatives felt SA "shouldn't have access to the financial resources of the IMF".

In terms of IMF rules, SA remains eligible for IMF loans to deal with its international debt-payment difficulties.

— AP-DJ

● See Page 3

Expulsion of SA called for

WASHINGTON — A call was made yesterday by developing nations for the IMF to sever its ties with SA

The semi-official Group of 24 (G-24), chaired by Ethiopian Finance Minister Tesfaye Dinka, demanded in a commu-

unique that the IMF "include urgently in the agenda of the board of governors an item which would specifically deal with the fund's relationship with SA".

It was believed to be the first time

that fund members had made such an overt call for ouster of a fellow member. It injected a rare political note into the proceedings.

While SA has maintained its contributions to the fund, the World Bank and their related organs, it has had no effective vote on the IMF's executive committee since being dropped from the Pacific rim voting bloc at Australia's request.

The G-24 communique requested the board of governors to consider SA's continued IMF membership in the light of the "relevant resolutions of the UN General Assembly and ... the Articles of Agreement between the UN and the IMF".

SIMON BARBER

DD 3/10/82

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BUSINESS

IMF told of SA role in Africa

WASHINGTON — South Africa's Finance Minister, Mr Barend du Plessis, has told the International Monetary Fund (IMF) that South Africa intends to continue to play "a constructive role" in regional development with money, technology, logistics and markets.

By continuing to offer neighbour countries jobs, markets for their produce, transport facilities, know-how and financial assistance, "South Africa can and is prepared to contribute greatly to the viability of development projects in other countries in Southern Africa," Mr du Plessis, IMF governor from South Africa, told the annual IMF-World Bank meeting.

Financing would be transferred through the Development Bank of Southern Africa and other channels, he said.

In his brief speech, Mr du Plessis did not refer

directly to economic uncertainties in the region stemming from opposition to the government.

Tightening of Western economic sanctions against South Africa could be followed by declines in use of South African ports and railways by neighbouring black African countries and declines in employment for their workers and markets for their products.

The sub-Saharan region offered promising potential for development and increased food production, Mr du Plessis said, because of its mineral resources and growing availability of trained manpower.

"It is a part of the developing world where abject poverty can be reduced if not eliminated, and where the average standard of living can be raised substantially," he said.

The minister said compulsory repayments

on South Africa's IMF drawings are "absorbing a substantial part of the scarce domestic savings of the country at a time when there is a great need for increased domestic expenditure on social reform."

Mr du Plessis said South Africa met foreign debt payments punctually without assistance from the IMF, other international organs or foreign governments despite the "abnormally large withdrawal of capital and credits" it experienced during the past two years, forcing partial exchange controls.

The \$3 billion South Africa pumped into the world banking system through repayment of foreign debt since the end of 1984 was equal to the total 1985 increase in new loans extended by international banks to all the world's poor countries, he said — Sapa-AP

Mr Barend du Plessis

13/10/86
SA stays in IMF (156)

JOHANNESBURG — South Africa will remain a full member of the International Monetary Fund (IMF), the governor of the Reserve Bank, Dr Gerrit de Kock, said yesterday when he arrived back from Washington.

"The existing arrangements remain in force until the middle of 1987"

He said in discussions with senior banking ex-

ecutives he found "they were much more relaxed about the whole situation than a year ago. Nobody is getting hurt, they are getting a very good rate of interest from us and some of their capital back," he said.

He said the dollar price of gold was expected to fluctuate "But in general I think, it will stay above the level of \$400." — Sapa

We're still a member of the IMF, says De Kock

13/10/86
South Africa would remain a full member of the International Monetary Fund, Reserve Bank Governor Dr Gerhard de Kock said yesterday when he arrived back from Washington

Asked in a television interview about developments in South Africa's foreign debt repayment, Dr de Kock said "The existing arrangements remain in force until mid-1987.

"I found in discussions with senior bankers that they were much more relaxed about the whole situation than a year ago. Nobody is getting hurt, they are getting a good rate of interest from us and some of their capital back," he said.

Asked to comment on gold and the dollar, he said "The general view is that the dollar will not appreciate against the German mark or the yen appreciably in the coming months

"It might well depreciate further. That in turn means that the dollar price of gold will probably remain high" — Sapa.

IMF to put squeeze on Maputo

16/10/86

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Dispatch Bureau

LONDON — The Washington-based International Monetary Fund is preparing to impose crippling economic discipline on Mozambique in a move likely either to save or sink the war-torn country

An account of a confidential IMF report on Mozambique, leaked in Lisbon, reveals an economy on the edge of collapse

The IMF plan coincides with a warning in Johannesburg yesterday by the Minister of Defence, General Magnus Malan, that Mozambique is "hovering on the brink of collapse"

The IMF plan, due for implementation in November, was drawn up after a three-week mission to the country by a team of the fund's economists

Its assessment of the situation is as bleak if not bleaker than that of General Malan

In a private note with the report, the IMF team leader, Mr Shilendra Ajaria, claims a coup d'etat is "around the corner" and expresses surprise that it has not yet taken place

The IMF had a major struggle to get acceptance for its austerity programme which President Samora Vachel's government fears may be the spark to the tinder of revolt

Among measures it demands is a one thousand per cent devaluation of the metical, the near-worthless Mozambican currency which has been widely replaced by a barter system

In another side to the story, the number of destitute people arriving in Gazankulu and Lebowa from Mozambique has increased dramatically over the past months

The numbers are believed to have increased tremendously in the past two weeks following reports that tens of thousands more have entered the two areas in an attempt to escape heavy fighting by the Mozambique National Resistance (MNR)

According to government officials, the number of Mozambican refugees who have entered South Africa since 1984 is more than 260 000 of which 60 000 are registered "aliens"

● It's reported from London that the British Government has given the go-ahead for the arming and training of an elite force of Mozambican soldiers to defend a vital northern rail link against further attacks by Renamo guerillas

In terms of the deal a British company is to supply light arms and ammunition to the Mozambican army

See also pages 8 and 11

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KINSHASA — Zaire has accused the International Monetary Fund (IMF) of strangling its economy and pledged that future relations with it would be conducted on a different basis.

An official statement issued after a month-long meeting of the central committee of Zaire's sole political party, the Popular Revolutionary Movement, accused "certain international organisations" of aiming at the "economic recolonisation and destabilisation" of Zaire.

During the last four years about 50% of Zaire's budgetary expenditure has been used to service its foreign debt, which bankers estimate at more than \$4bn.

Kinshasa-based diplomats say Zaire has been one of the IMF's most obedient pupils, faithfully sticking to most credit conditions despite the hardship they have brought for the former Belgian colony's 32-million people.

The country's currency, the zaire, has been allowed to float while the vast, mineral-rich Central African nation has introduced stringent controls on public expenditure and opened up its economy to private enterprise.

Zaire hits at tough IMF rules

The statement conceded implementing fund conditions had allowed Zaire to regain "a certain credibility internationally," but said the social consequences had become unacceptable.

The meeting, chaired by Zairean President Mobutu Sese Seko, agreed that floating the zaire had not achieved the desired results, the statement said. It did not elaborate.

It said foreigners would no longer be given jobs in Zaire which could be filled by competent Zaireans.

Analysts said the statement confirmed a recent deterioration in relations between the fund and Zaire, in particular its First State Commissioner (Prime Minister) Kengo Wa Dondo, who has overseen Zaire's IMF-backed economic austerity programme.

THE ECONOMY

IN dramatic moves that have taken much of the donor world by surprise, African nations are rapidly adopting the bold and sometimes politically risky economic policy reforms they committed themselves to at the United Nations' Special Session on Africa last year.

From Zambia and Ghana to Guinea and from Tanzania and Mozambique to the Congo, the state is diminishing the hold it has exercised since the 1960s on every detail of economic activity, a step few would have imagined likely even two or three years ago.

There is little indication as yet, however, that the major donors, who have pushed for such reforms, are coming up with the additional resources which most of these programmes need if they are to succeed.

"Country after country in the sub-Saharan region has come up with comprehensive reform packages," acknowledges Edward Jaycox, the World Bank vice-president. "There are now 22 countries whose reform measures have qualified them to receive funds from our special facility."

Africa gives in to the banks

When the facility was established in 1985, only about 10 nations were expected to apply.

The pace, intensity and direction of reform varies. But all across the continent, countries are increasing prices they pay farmers for food (to boost production), cutting back on government regulation of the economy (to allow market forces to determine prices and allocation of resources), slashing public expenditures and employment (to balance the budget and invest in more profitable sectors) and devaluing their currencies (to remove price distortions and increase rural incomes). They are also substantially increasing their investment in agriculture.

Success for these reform programmes is extremely difficult without external assistance, however. There is a "time lag" between initiation of the new structural adjustment policies, as these reforms advocated by the International Monetary Fund and others are called, and their intended result of a vigorous

Even those African countries which oppose the IMF conditions for assistance are discovering that there is no alternative to following the international banks' economic programmes. SALIM LONE reports from Washington

and more self-reliant economy

During this period, there will be intense human suffering as food prices go up for hundreds of thousands of urban residents who are already living on the margin, as wages fall and as governments lay off people and cut social services in order to limit expenditures.

While multilateral assistance for Africa is growing, the evidence on bilateral aid — which accounts for a significantly larger proportion of financing — is not encouraging. The United States, for example, has cut back its economic assistance to Africa

by about 30 percent for 1987.

That bilateral resources are not forthcoming is not really surprising. Many donor countries themselves are in the midst of cost-cutting exercises. There is little awareness that the causes underlying the last terrible famine are still very much in place: commodity prices, debt, resource flows mean little to the person-in-the street, even though their stranglehold on people's lives can be every bit as deadly as drought.

Complicating the scenario is the fact that reforms, especially underfunded as they often are at present, do not guarantee success, as Zambia's recent difficulties revealed.

The country's economy had been battered over the previous decade by the plummeting drop in copper prices, its main export, and food production was down as well. Zambia needed cash, and that was only available if the country undertook policy reforms. So it began structural adjustment measures a little over a year ago, devaluing its currency and cutting the

public service

The new measures further increased unemployment, depressed incomes and inflated prices. When the government doubled the price of maize meal in December, there were riots in the streets which left 15 people dead. President Kenneth Kaunda rescinded the price increases.

But underfunded or not, most nations really strapped for foreign exchange — without which the imports central to growth in a poor country are unavailable — have no alternative but to adopt structural adjustment policies if they want to negotiate IMF or World Bank assistance.

As Edward Jaycox asserts, there is only a fixed amount of foreign exchange assistance available, and it is important that this be channelled to countries undertaking reform.

So more and more countries (including those which militantly opposed IMF conditions for assistance, such as Ghana, Tanzania and Guinea) are realising that there is no option to structural adjustment programmes — The Guardian, London

CAN Times 12/8/87

SA makes R240m payment to IMF

Own Correspondent

JOHANNESBURG. — SA last week made a SDR100m (R240m) payment to the IMF, its third last repayment of quarterly tranches on a SDR795m credit facility incurred in November 1982.

The balance outstanding with the IMF is now SDR200m and will be repaid in equal amounts of SDR100m in August and November.

A central bank spokesman said that at this stage SA did not need to extend its facility with the IMF.

"On paper we are a member of the World Bank and the IMF but in practice renewing the IMF loan might be lot less simple should we decide to use it," he said.

SA's previous payment for SDR100m (R240m) was made at the end of February 1987.

The exchange rate of the rand to the SDR is set each year by the IMF's annual adjustment meeting. At the current market rate the SDR is worth \$1,31 and against the rand it is SDR0,6496.

In 1982, the IMF granted SA credit for SDR1bn, of this amount SDR795m was drawn. SA used SDR159 in terms of the IMF's normal standby facility and SDR636 under its compensatory financing facility.

IMF under fire for good SA relations

WORLD BANK and International Monetary Fund policies, including their relationship with South Africa, came under fire at a London conference this month.

The political and ideological objectives of the IMF were concealed behind a veil of technological and economic analysis so that it did not question the politics of South Africa, said Max Sisulu of the African National Congress.

He was speaking at a conference organised by the Institute for African Alternatives, attended by some 40 African academics, trade union, government and non-government organisation officials.

He said in 1976-77, loans to SA were greater than to the whole of the rest of Africa in that period. Loans approved to the SA government did not carry the conditions which other borrowers faced, he said.

It was only in 1983 after 40 years of supporting South Africa that the IMF was forced to criticise apartheid.

South Africa's role was designed to limit the scope and possibilities of economic changes in the smaller countries of the region, Sisulu said, so that no independent economic policies could be conducted.

The IMF and Bank were attacked for the impact of their policies on developing African countries.

The worsening economic situation in Africa has forced the IMF and Bank into proposing programmes labelled "anti-poverty", "stabilisation", "structural adjustment", or "economic recovery". But economic decline continues.

IMF and Bank representatives said that in any new programme constraints would be operating as funds and resources were running short and austerity measures would be an inherent part of the deal.

By THECLA SCHREUDERS,
London

Wilfred Asombang, a delegate from the UN Institute for Namibia, said that country after country had slammed the IMF in particular for the way it participated in managing debt crises through stabilisation programmes intended to save economies from collapse.

As a result of adopting IMF "austerity" measures (devaluation of currencies, opening up their markets to foreign goods) countries experienced increased unemployment, rising prices of basic commodities, deteriorating health, education and social services as governments cut domestic spending and worsened already critical balance of payments deficits.

The IMF has tended to view balance of payments deficits and debt crises as medium-term economic imbalances rather than the products of fundamental long-term development problems, he said.

Dame Judith Hart, Labour MP, sketched the present disaster she said many African countries must face. commodity prices at their lowest levels since the mid-Thirties due to exposure to successive Western economic depressions; trade barriers erected to block African goods from entering world markets, declining aid and the incidence of "reverse loans" — from the poor to the rich countries — and the changing value of the US dollar which provided an unreliable basis for the welfare of a poor continent.

Hart said that because of the two institutions particular capitalist basis, they went to the aid of conservative governments — Chile under Pinochet, South Africa two years ago so

A range of alternatives, some reformist, some radical, were proposed

to lessen the power which the two agencies wield.

A cornerstone of most proposals was the priority for African countries to bury their historical, political and language differences in order to overcome the larger problem of underdevelopment and impoverishment as fostered by IMF and Bank policies.

One delegate stressed the need to challenge the idea that structural adjustment policies should be used to increase export production, instead they should be used to increase local production. This might mean "austerity" for big industries having to use local resources and adapt technology for local needs.

Certain older proposals were reiterated, such as sharing the burden of adjustment between creditor and debtor, stabilising primary export earners and prices; cancelling or collectively repudiating debts. Other alternatives

- Scrapping the IMF and World Bank, or setting up alternatives among more sympathetic donor countries,

- Establishing an African Monetary Fund that would supply intra-African aid and loans deal in credit rather than just in cash and which would plough the profits back.

- Reducing external debt servicing.

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w/ mail
25/9 - 1/10/87

On the skids

A year ago Barber Conable and Michel Camdessus took charge of the World Bank and International Monetary Fund (IMF) in an atmosphere of high expectation. Both multinational institutions were seen to be in need of a shaking up and a reordering of priorities that would make them better able to deal with the critical problems of stagnating world economic growth, near-fatal debt burdens among the poor countries, and currency instability among the most powerful nations.

A year later, neither institution has made much headway in regaining forward motion. If anything, the IMF has slipped back into a largely symbolic role. The best thing that can be said about Conable's much-publicised reorganisation of the World Bank is that it is now over, at the cost of vast sums of money and much staff morale.

Over at the IMF, managing director Camdessus has deliberately pulled the agency over to the sidelines in the bargaining struggles between the commercial bank syndicates and their Third World debtor clients. Instead of being in the middle of the scrimmage, as Jacques de Larosiere had been, the Camdessus fund has shifted focus away from the big-number debtor countries of Latin America and toward the more desperately poor and more frequently overlooked debtor nations of sub-Saharan Africa. The US\$11 billion line of credit being developed for that sector reportedly absorbs most of his attention.

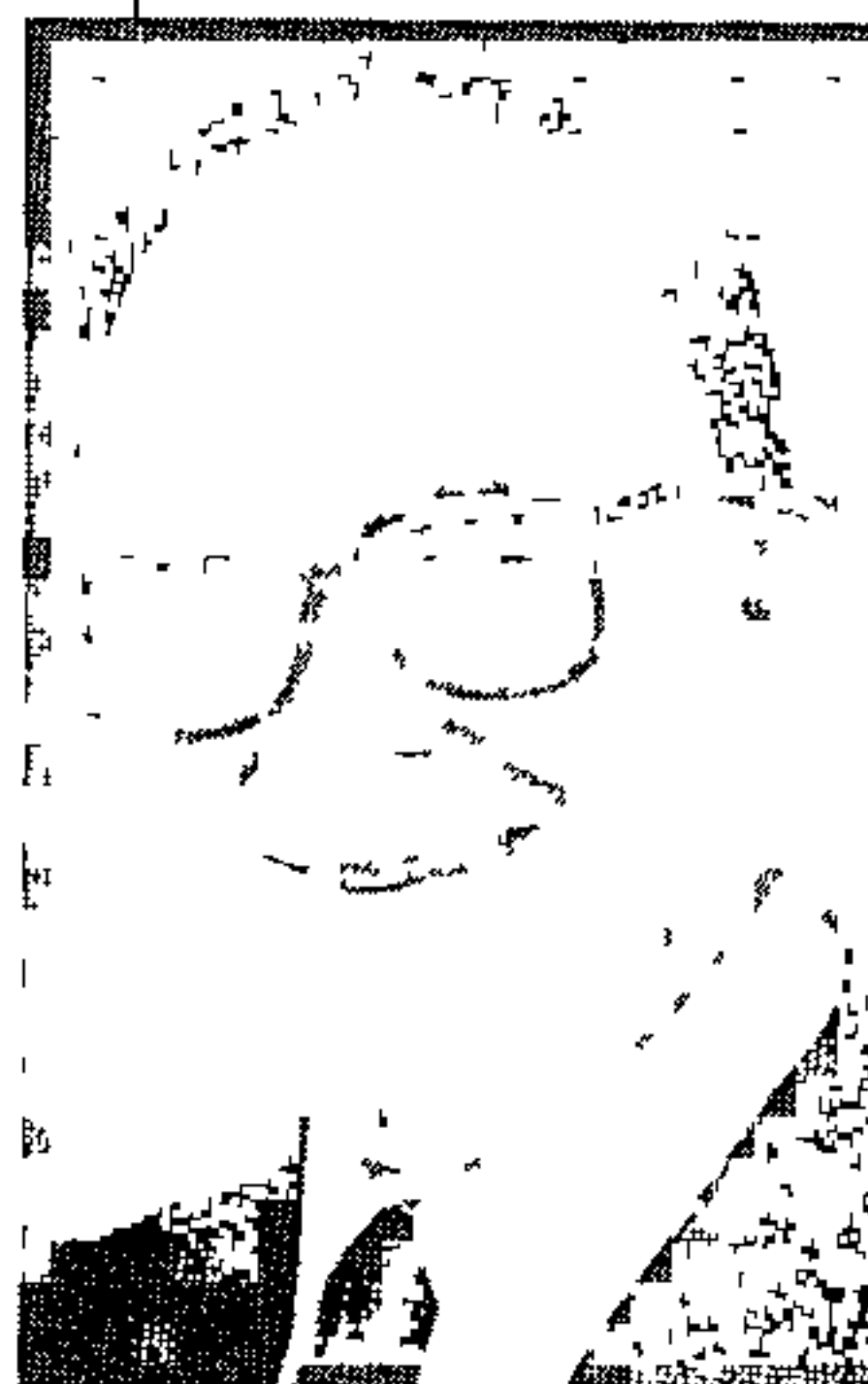
Part of the source of the fund's recent loss of way must be assigned to the growing resistance among the debtor nations to the traditional IMF staff prescriptions for economic reform — devaluation and austerity — which precarious Third World governments find difficult if not dangerous to impose. Indeed the fund has been openly barred from Brazil, and visiting staff find it increasingly difficult to impose their reforms, again in part due to the perception that the fund does not have enough new money to offer willing reformers to make the risks worthwhile.

A related element in the fund's decline is the very clear preference of US Treasury Secretary James Baker and other Reagan administration strategists for the World

Bank as the vehicle of choice for its dealings with the debtor bloc.

The bank staff is clearly uncomfortable in the role of credit manager and economic policy reformer which used to belong to the

IMF. As an institution, the World Bank is not set up to make the kind of analysis of specific national economic problems nor are its bankers individually prepared to take on the role of tough negotiators with debtor governments over the kinds of reforms that must take place before new loans and cred-



Conable

its can be approved.

Thus one comes back full circle to the Conable reorganisation which reduced the bank staff by 10% and left the remaining 90% in a state of paralysis from which they are just recovering.

At the end of it, both institutions have given up a year to changing directions brought about by their changes in leadership a year ago. The relevance of both organisations dwindles day by day.

other is a damning analysis of the WB published by the conservative think-tank the Cato Institute (CI), which uses internal (and presumably leaked) bank studies to demonstrate the failure of many of the expensively funded development projects

The Salomon securitisation idea is noteworthy for its avoidance of the early popular idea that much of the Third World's troubled debt could be swapped for equity interests. This idea ignored the formidable barriers to foreign ownership that exist in law and culture in Latin America and elsewhere.

According to MD Warren Foss, the Salomon scheme would centre on a debt-for-debt security, presumably discounted deeply enough to make it marketable.

The firm is working with numbers that show the secondary market for such debt is about US\$10 billion this year, double last year's volume. One stumbling block in the way of such a new capital market vehicle is the concern about the quality of the underlying debt itself. Some of the Mexican secondary sales are below 50c on each dollar of face value.

Brazil is another worry. Its negotiators with the New York bank syndicate were said to be putting forth an exit bond plan which would give the banks themselves the power to determine the amount of debt to be converted and the amount of the discount to be offered.

Among the more intriguing proposals rumoured is that the Brazilians will insist that the new bonds offer a competitive yield and rank as senior official debt. This would enable them to be used to make debt-equity swaps, it is argued.

Such a scheme would have the support of James Baker, the US Treasury Secretary, who has been urging securitisation as a device to attract new bank lending into the Latin American sector — where it is badly needed if American exports there are to revive.

Baker also startled early arrivals to the WB/IMF meeting by jumping out ahead of the parade and calling for a major capital increase for the WB to the tune of \$40 billion-\$50 billion. This new money is needed, he told a news conference, so that the bank can move from its current \$15 billion a year loan output to a \$20 billion level.

The idea is not as popular as it might have been a year ago.

IMF MD Michel Camdessus was hoping to win final approval for a \$7 billion contribution from the Group of Seven bloc to fund a special loan package for the distressed nations of sub-Saharan Africa. Since the US still has to pony up its \$2.8 billion share of

the current replenishment of the bank's International Development Association (IDA), Camdessus might well wonder whether Baker's priorities are correct. More to the point, the WB is going through a well-publicised rough patch itself.

President Barber Conable's ham-fisted reorganisation — which involved firing all 6 500 staff members and then authorising a from-the-top-down rehiring by his chosen cadre of advisers — is still being pounded in the press four months after it was put into place.

Now comes the CI report which argues that while the WB preaches the doctrine of encouraging market-orientated reforms among Third World nations, its funding usually ends up going for collectivist (and often anti-human) projects or to prop up failed state-run economic experiments. Some of the evidence cited in the CI report is deliberately and undeniably damning. The bank's loans to finance the genocidal resettlement programmes of the Marxist Ethiopian regime or the Indonesian transfers from Java are only the most obviously grotesque. Less dramatic, but arguably more crucial, is the citing of several internal WB studies which argue that the much ballyhooed structural adjustment lending programmes — used since 1980 to nudge developing countries back to market-orientated policies — have in many instances hampered the very reforms they seek to encourage.

One of the unanswerable charges is that having agreed to lend money, the WB rarely ensures that the money is actually used for structural adjustment or that, faced with failure, instalments are ever withheld for non-compliance. One bitter complaint from the Mexican structural adjustment effort was that the bank did not insist on adequate auditing either of the rampant corruption inside the government or to prevent the flight of capital from the country.

WORLD BANK/IMF FIM 2/10/87

Beyond debt swaps

Any veteran of the merchants' fair known as the annual meeting of the World Bank (WB) and International Monetary Fund (IMF) knows of the vast array of interesting things to read and new ideas to ponder that confront the delegates.

Among the more popular items being discussed as the central bankers and finance ministers of 151 nations began to drift into town is a plan by Salomon Brothers Inc to market a new Third World debt bond. An-

(156)

I. M. F

APRIL - DEC 1988.

Debt situation now threatening social and political stability of Third World

(156) SMC 15/4/88

WASHINGTON — A group of key developing countries warned yesterday the debt situation was still critical and threatened social and political stability in the Third World.

The Group of 24 nations, which includes some of the larger Latin American debtors, said in a communique after three days of discussions that a new approach to debt rescheduling with private banks was needed.

The group met in association with a gathering of finance ministers and central banks under the auspices of the World Bank and International Monetary Fund.

The communique said that the "overall debt situation is still critical"

It said debt payments remain unsustainably high, and the money-flow from the developing world has become so painful that an increasing number of countries have suspended interest payments.

The communique, almost a laundry list of developing country complaints and demands, said a new approach to debt rescheduling was needed.

Brazilian Finance Minister Mailson da Nobrega, chairman of

the Group of 24 countries, said banks have a responsibility in overcoming the crisis.

"The time has come for them to reduce their earnings," he told a briefing for reporters.

The communique called for a further reduction in interest rates that banks charge countries for loans, adequate compensation for changes in currency values and elimination of commissions and other fees associated with negotiating new money packages.

The developing countries economic leaders said belt-tightening efforts against a backdrop of inadequate new financing from overseas threatened the social fabric of the Third World.

The communique said it "has entailed serious social, economic and political costs, jeopardising the future prospects for growth and development in these countries and threatening their social and political stability."

The communique also deplored changes in some basic programmes of the IMF, which while having the potential for providing more money, could require countries to adhere to tough new conditions.

Nearly one dollar in every four

the World Bank lends to governments in developing nations is given on condition they change their policies, following the urging of the US.

It's not a new kind of lending, but the report released this week reflects the importance the US and other wealthy countries now attach to influencing governments of poorer nations. In 1979, the proportion of this kind of loan was less than one dollar in \$300.

The rest of the World Bank's money was used then, as now, for traditional loans — building schools, roads and hospitals, dredging harbours and helping farmers, without regard to how the government is run.

The bank — the biggest source of aid for poor countries — authorised more than \$17.5 billion in loans in the year to last June (\$10 billion in 1979). In 1979, policy-based lending was only \$31 million (\$3.5 billion in 1987).

The new proportions appear in a special report issued as part of this week's semi-annual meetings of the World Bank and its sister organisation, the International Monetary Fund. They are owned by 151 countries, with the US as

the largest single contributor to both.

At a 1985 meeting in South Korea, US Treasury Secretary James A Baker said the bank should take the lead in policy-based lending.

Mr Baker's idea was for the bank to help work out individual long-term plans that would "adjust" a government's policies and put the country in better position to handle its debts. Since then, Third-World debt has risen from \$738 billion to more than \$1.1 trillion, the bank estimates.

The bank's report measures the success of its adjustment programmes by a country's growth, although it says there is no simple cause and effect and the effects can be a long time in coming.

It surveyed 16 countries which had such programmes between 1980 and 1984, before Mr Baker made his proposal. Eight of them increased the average citizen's income. South Korea, Pakistan, Turkey, Thailand, Costa Rica, Ghana, Mauritius and Morocco. Only in the Philippines and the Ivory Coast were there declines.

"These programmes have already produced solid achievements," the report says — Sapa-AP

Developing countries' markets are promising

step
4/5/88
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The international debt crisis would never have happened if the developing countries had raised more money in the 1970s by selling shares in their productive assets instead of borrowing from banks.

A greater reliance on equity capital would have shared their financial risk smoothly and automatically with foreign investors.

Bank borrowing, in contrast, placed all the risk — initially, at any rate — with the debtors. When bad policy and a hostile economic climate turned against them, the result was financial collapse.

It is too late for equity finance to avert the debt crisis, but not too late for it to help to clear up the mess.

Chile has led the way, converting bank debt into equity stakes in its industries. So far it has swapped roughly \$2.2 billion of debt into equity. If other countries provided the same sort of macro-economic stability, together with a warm welcome for foreign investors — big ifs, admittedly — they could do as much to tackle their own debt troubles.

However, investing in developing countries directly in industry or indirectly via stockmarkets, is more than a way to salvage something from the fire of international debt.

There's good money in it. To prove the point the International Finance Corporation — an arm of the World Bank — is beginning to share more of its knowledge of emerging stockmarkets with outsiders.

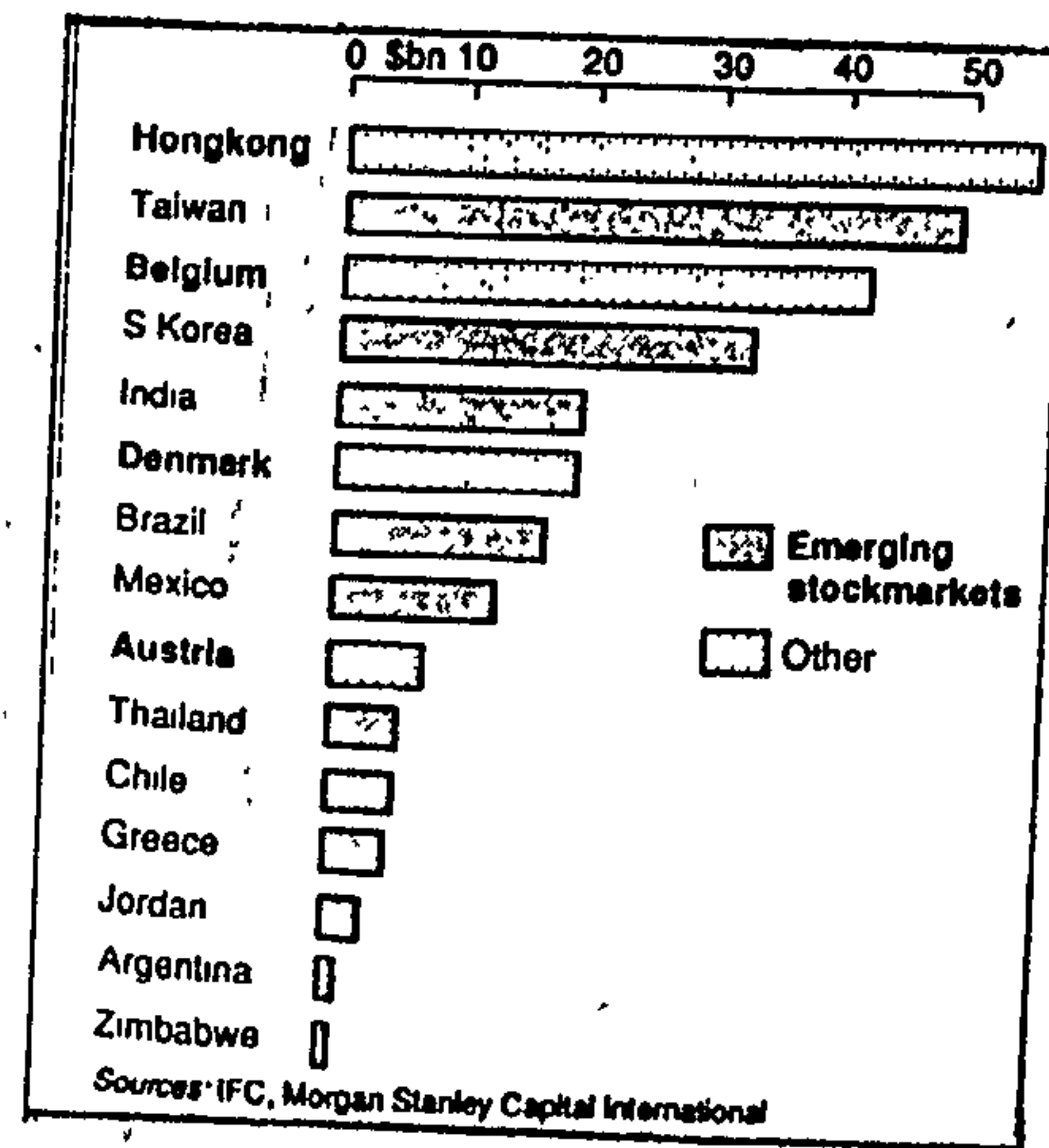
New venture

Its latest venture is to sell access to its "Emerging Markets EData Base", which has consistent, regularly updated information about companies and stockmarkets in the developing world. The IFC hopes that greater knowledge will mean greater interest in developing countries' shares.

Its pitch runs as follows. True, the emerging markets are tiny by the standards of Wall Street, London and Tokyo — South Korea's market capitalisation of \$32.9 billion pales besides Wall Street's \$2.5 trillion. But the bigger emerging markets — South Korea, Taiwan, India, Brazil and Mexico — can stand alongside the smaller developed ones such as Hong Kong, Belgium, Denmark and Austria (see chart).

Many of them have more listed companies than developed markets do, and they trade the shares of some respectably large firms. At the end of 1987, for instance, Mexico's

Foreign investment in the stockmarkets of the developing countries offers one of the most promising ways to ease the shackles of international debt. The profits are promising too.



Market capitalisations end-1987 estimate.

market traded the shares of 25 companies with market capitalisations of over \$50 million; Taiwan's traded shares in 24 of that size, Brazil's 18.

Dollar returns have been impressive. South Korea's market has consistently outperformed even Tokyo. In dollar terms its prices have risen faster not just since last October's crash, but since the end of 1986, and since the end of 1975.

Over the 12-year span, Thailand and Chile have outperformed — by a wide margin — a commonly used index of world stockmarkets run by Morgan Stanley Capital International. Since the end of 1986 seven of the 11 emerging stockmarkets have outpaced America's Standard & Poor's 500 index.

Dollar returns in most of the emerging markets are not slavish followers of trends in the rich markets. Over the 11 years to December 1986, the month-by-month returns in Argentina, Chile, Greece, Mexico, Thailand and Zimbabwe were negatively correlated with the S&P 500: they did well when Wall Street did badly, and vice versa.

So an American investor with a spread of investments in these markets would not only have done well

in absolute terms, he would have smoothed the ups and downs in his total portfolio.

Moreover, many emerging markets have lower price/earnings ratios than their rich-country counterparts. That should make them attractive to investors who use such classic techniques to spot undervalued shares.

Is investing in these markets feasible? Foreigners can gain access of some sort to all but two of the markets in the IFC's data base. The markets of Turkey and Nigeria are classified "closed or severely restricted."

Some restrict investment to special equity funds (Brazil, Mexico, South Korea, Taiwan, India). Elsewhere the rules on entry to and exit from the markets vary from none through relatively light (eg, Chile, Colombia), to relatively tight (eg, Venezuela, Zimbabwe, Thailand).

So telling investors in the north that there are golden opportunities in the south is only half of the IFC's task. The other half is to convince the more sceptical developing countries that an expanded inflow of foreign equity investment would be greatly in their interests.

Third World debt crisis is 'far from resolved'

LONDON — Soothing noises have been heard lately about the Third World's \$1.2 trillion of debt but optimism about solutions is not universal.

One leading banker, Bank of Tokyo chairman Yusuke Kashiwagi, says he thinks the debt crisis is far from resolved, six years after Mexico's near-default shook the world economy.

"It appears to me that this issue will probably be coming to a critical head in the coming months unless something is done about it soon," he told a London audience recently.

His view contrasted with the mood earlier in April after meetings in Washington of the International Monetary Fund and the World Bank.

"There's a real sense of momentum," said senior World Bank official David Hopper after those discussions.

Recent months saw a cash injection to the World Bank of

\$75 billion, and an accord by wealthy nations to triple the pool of money available on easy terms to the poorest African countries, among other new measures to alleviate the crisis.

Meanwhile Western banks have in the past year set aside huge sums from their profits to provide against potential bad debts, bringing into open debate the once-held view that they will never be repaid anyway so it might as well be quietly written off.

US Treasury Secretary James Baker, however, has criticised proposals to forgive the Third World its debts.

"I believe that path leads both debtors and creditors off the cliff," he says.

Forgiving at least some of the debt, some bankers and economists argue, might ease the short-term burden of the present crisis, in which the Third World is spending almost \$30 billion more on servicing its debt each year than

it gets in new loans.

But wiping off the debt would scarcely improve developing nations' credit-worthiness.

Recession

The real challenge is increasingly seen as being how to pump more, big money into the Third World to get its recession-hit economies moving again while also helping it settle past debt — rather than merely getting the banks' money back or finding ways to write down bad loans on the balance sheets.

The banking system, six years since the threatened Mexican default, might survive a situation in which repayments just dried up, bankers say.

But if they default, Third World nations could be cut off indefinitely from tapping the accumulated savings of the West and Japan, as they must to finance expansion of their economies.

And if Third World economies

the social, political and economic consequences could be incalculable.

"It is absurd that developing countries are transferring more to the industrialised countries than they receive," Prime Minister Gro Harlem Brundtland of Norway told the general assembly of the World Health Organisation (WHO) on May 3.

"These trends will have to be reversed, not only because the situation is in itself unacceptable, but also because it is in the self-interest of the developed countries themselves."

Economists agree that affluent societies, robbed of markets for their manufactured goods, will risk being tilted into a slump if developing nations cannot revive economic activity.

"Let's be clear about these countries," said Brian Pitman, chief executive of Britain's Lloyds Bank Plc. "The international

banks have stretched out the repayment of principal on these loans for some years, but they will need more cash to continue to grow."

"The fact that Brazil has renewed interest payments and that Venezuela has raised \$100 million on the Eurobond market indicate the situation is brighter than a few months ago," Pitman told Reuters in an interview.

Bigger role

But governments and multinational agencies would have to do more for countries experiencing repayment difficulties, he said.

Kashiwagi of the Bank of Tokyo also takes the view that a bigger role must be undertaken by international financial institutions like the World Bank and IMF.

They could borrow more from private banks and re-lend to the Third World, or take over much of the risk undertaken by the private

sector when it lends to the Third World.

Kashiwagi called on leaders of the United States, Japan, West Germany, France, Italy, Britain and Canada, who hold a summit in Toronto in June, to take a new initiative.

A \$5.2 billion bank loan for Brazil, the Third World's largest debtor, however, was delayed by a dispute over whether the World Bank should guarantee part of the money, according to US officials and bankers.

Japanese banks in particular threatened to boycott the loan unless they got the World Bank guarantee.

The World Bank and the Reagan administration argued that the Bank should use its guarantee power sparingly. "We've made it clear that we don't support World Bank guarantees of private loans for a country with the potential Brazil has," Treasury Secretary Baker said — Sapa-Reuter.

won't persist indefinitely, prices." — Sapa-AP.

Taiwan's trade surges

TAIPEI — Taiwan's trade during for the first quarter of 1988 reached \$35.66 billion, up 37.3 percent from a year earlier. In April, exports totalled \$4.83 billion while imports mounted to \$4.1 billion.

The United States, which purchased \$7.22 billion from Taiwan during the period, was still the nation's biggest import customer, followed by Europe, at \$3.16 billion, and Hong Kong, at \$2.72 billion.

Japan, exporting goods valued at \$4.649 billion, was the nation's biggest supplier, with the US next at \$4.645 billion and Europe \$2.66 billion. — Sapa-CNA.

Aid money used to boost sales

WASHINGTON — Money provided to help poor countries is being used more and more to win sales for business by Japan, France and other rich nations, the president of the US Government's Export-Import Bank told Congress.

"Statistics indicate an increase of more than 40 percent over 1986 in

offers of loans using some aid money from \$11.1 billion to \$15.6 billion," John A Bohn Jr said.

"In particular the Japanese initiated offers of about \$3.5 billion in 1987, up by approximately 30 percent from their 1986 level.

"Even more striking, offers initiated by France more than tripled compared with their 1986 level for a total of \$2.4 billion in 1987."

Bohn added that Britain and Canada are now offering this kind of credit to help their industries take over what are called "spoiled markets."

He said these are areas where purchasers are no longer willing to do business at ordinary commercial rates because the use of aid money has given them such favourable treatment in the past — Sapa-AP.

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Streamlined Fedfood looking tasty

By Ann Crotty

Fedfood's latest results show the benefits of the more focused strategy that has been adopted by the new management and justify a considerable improvement in the market's rating of the share.

On a turnover increase of only 4 percent at R1 billion (R972 million) earnings showed a strong 24 percent surge in the year to end-March.

GROWTH

The weaker growth in turnover is due to the disposal of two of Fedfood's subsidiaries, effected during financial 1987 in an attempt to streamline the group's interests. Managing director Jan du Toit notes that on a comparable basis turnover would show an increase of 22 percent.

The major source of improvement was



MD Jan du Toit

achieved at the interest payment level with the bill down a massive 30 percent from R23,7 million to R16,6 million. This reflected the sharp improvement in the group's debt position that followed the disposal of the subsidiaries, lower interest rates and, improved asset management.

The reduced interest

bill combined with the 9 percent improvement in operating profit took the increase in pre-tax income up to 28 percent which was equivalent to R60,9 million (R47,4 million).

CONTRIBUTION

A stronger contribution from associates and a reduction in payments to outside shareholders saw the attributable income up 31 percent to R35,5 million (R27,1 million). But an increase in the number of shares in issue diluted this to a 24 percent improvement at the per share level equivalent to 129c (104c).

The balance sheet also shows the benefits of the new management's strategy which included the profit ploughback of R29,6 million and a stricter capital expenditure policy.

Long-term borrowings are down sharply from R37,9 million to R17 million and short-term loans also show a significant reduction, down from R52,9 million to R46,6 million.

The tightening-up of group activities sees the net asset value per share has surged from 617c to 723c.

Mr du Toit is keen to emphasise a number of factors relating to the results: an exceptional contribution from fishing, an outstanding contribution from the snacks division, a sharp turnaround in the frozen food division, competitive conditions in the vegetable oil and maize products markets, the dilution in earnings as a result of last October's debenture conversion and the fact that all the group's main subsidiaries are now profitable.

Somalia added to IMF's blacklist

WASHINGTON — Somalia has been added to the list of countries which no longer can borrow from the International Monetary Fund because of overdue repayments on previous loans.

The northeast African republic owes the fund about \$37 million.

Other countries on the list are Vietnam, Liberia, Peru, Sierra Leone, Guyana, Sudan and Zambia.

The World Bank, owned by the same 151 countries, has a similar

list

Payments from the countries on it are so far behind that the bank is no longer entering payments from them on its books until it actually receives the money.

Banks sometimes list payments to them on an "accrual" basis just because they are due, regardless of whether the money has actually come in.

Peru, Zambia, Sierra Leone, Liberia and Guyana are on this list as well as the fund's list. The bank

also includes Nicaragua, Syria and — since last week — Panama.

The bank keeps a list of countries, not normally published, whose payments are 75 days overdue. Its practice is to suspend disbursements on loans to those countries. Sheldon Rappaport, a spokesman for the bank, said that at the moment its two lists are identical.

The bank is the chief source of long-term aid loans to Third World countries — Sapa-AP

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The bank is the chief source of long-term aid loans to Third World countries — Sapa-AP

Making the medicine more palatable for Africa's debtors

Britain has Margaret Thatcher, and Africa has the International Monetary Fund (IMF)

In the past decade, both the Prime Minister and the fund have prescribed stern financial discipline for their respective charges. Both have been accused of cruelty and shortsightedness for increasing unemployment and undermining social services.

The difference is that Africa is much poorer and politically more unstable, its economies are in much greater disarray and it seems to have failed to respond adequately, or quickly, to the monetary medicine doled out by the IMF and its allies, the World Bank and the bilateral donors.

Realising this and fearing another upsurge of African anti-capitalism, those who bankroll Africa's efforts to bring about economic recovery are engaged in a gradual but remarkable shift in thinking.

For the 25 or more African countries implementing donor-funded Structural Adjustment Programmes (SAPs), the benefits of this change of heart should come in the form of more donor money on easier terms and a series of special projects designed to alleviate the initial pain caused to the poor by economic adjustment.

Africa's politically vocal citydwellers, including unwanted civil servants who may be pruned from bloated administrations on the advice of the IMF, are always capable of staging food riots and destroying the reform effort, as they helped to do in Zambia in 1986. Henceforth they will be coddled in the early stages of adjustment.

In Guinea-Bissau, this means that civil servants on fixed incomes, who would suffer particularly from price increases associated with devaluation, will receive subsidised food on a declining basis over three years. In Senegal, sacked civil servants will be retrained and resettled as farmers in rural areas. In Mauritania, redundant workers from the iron ore industry will be helped to go into agriculture.

Ghana, which faced economic collapse

in the early 1980s, is now regarded as one of the IMF's few success stories in Africa. But even there recovery is fragile and the poor have suffered, especially the urban population unable to benefit from higher producer prices for cocoa and food crops. Although the emphasis on agriculture is long overdue, urban discontent remains a threat.

"That is why the politics of stabilisation is so often also the politics of destabilisation," Mr Tsatsu Tsikata, adviser to the Ghana government, told a recent UN conference in Khartoum on African economic recovery.

"A government determined to effect these transformations will face attempts to overthrow it," he said.

"We should have been moving faster on these social dimensions," World Bank representative Dr Stephen O'Brien said at the Khartoum conference, which focused on the human costs of economic adjustment. "We've been groping towards a better understanding."

Above all, it is the African governments themselves, not the IMF, which ultimately decide where to make the required budget cuts. They often reduce spending on health rather than on defence or government bureaucracy.

Mr Ismail Serageldin of the World Bank put the problem like this. "Under the pressure of the present crisis, a number of governments have succumbed to the tendency to cut back on social spending at the basic and preventative levels in favour of sustained spending in some other areas whose political constituencies are more powerful."

African countries and their allies have accused the Western donors, sometimes with great bitterness, of failing to keep a bargain made at a special UN session in 1986, whereby donors would be generous with aid money in exchange for African perseverance with economic reform.

Certainly, the continent's unmanageable \$200 billion external debt and the low world prices for most of its commodity exports have placed formidable obstacles in the way of recovery. But the IMF, the World Bank and individual donors are making attempts to ease Africa's peculiar difficulties.

source: EIU Country Risk Service

AFRICAN DEBT	Total debt (\$ bn)	Total debt (a) service ratio (%)	GDP growth (%)	Per capita	
				GDP (\$)	debt (\$)
Sudan	8.3 (b)	10.0 (b)	3.5	250 (b)	373 (b)
Gabon	2.2	18.1	(-3.8)	2,823	2,052
Senegal	3.7	23.8	4.1	699	532
Liberia	1.4	7.6	(-2.4)	355	631
S. Africa	21.1	12.3	2.2	2,383	815
Nigeria	25.2	22.5	1.2	233	249
Congo	3.8	14.2	(-4.0)	763	2,072
Ghana	2.7	29.1 (c)	4.1	317	186
Kenya	4.7	29.7	5.2	345	213
Zimbabwe	2.7	40.0	(-2.0)	730	320
Cameroon	3.9	22.0	2.3	1,300	362
Zaire	8.2	10.0 (d)	2.0	75	254
Zambia	5.7	14.9 (e)	(-2.0)	192	779
Ivory Coast	8.9 (d)	22.0 (e)	0.5	1,156	857

a - total debt service as a % of exports of goods and services
b - 1986 estimates
c - if IMF charges and arrears payment included, the ratio rises to 57%
d - refers to medium and long term only
e - refers to public medium and long term only

ca's peculiar difficulties

Under Mr Michel Camdessus, the IMF is imposing softer conditions and targets for run down African economies and providing balance of payments support with longer-term standby arrangements.

World Bank figures show that annual per capita growth in gross domestic product in African countries with sustained adjustment programmes was 0.8 percent between 1984 and 1986, compared with a fall of 2.5 percent for those without. The Food and Agriculture Organisa-

tion says that in the same period per capita food production rose annually by 4.2 percent in countries with structural adjustment, against only 2.4 percent for those without.

The SAFs do not seem to be "tearing apart the fabric of African society," as claimed by Professor Adebayo Adedeji, who heads the UN Economic Commission for Africa. But none of the figures are particularly impressive and Africa still has a long way to go. — Financial Times

World markets sluggish as inflation fears mount

Star 20/5/88

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~~154~~

By Finance Staff

After rising almost constantly for two months stock markets worldwide have been on the slide over the last week in the wake of renewed fears of higher inflation rates

Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation and interest rates continue to dominate the markets

The currency markets have also caught the inflation anxiety gripping the stock and bond markets, and the dollar was slightly weaker in early trading in Tokyo

It was unchanged at 124.88 Japanese yen in morning trading Friday in Tokyo, slightly down on the New York closing level

But gold, which is a favourite investor refuge when inflation seems to threaten the value of other assets, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much-needed injection of confidence

In Tokyo, the Nikkei Stock Average gained 29.57 points to finish the morning session at 27 402.81. Yesterday it fell 394.34 points in its largest single-day fall this year

The Dow Jones average of 30 industrials, which fell a total of 56.54 points on Tuesday and Wednesday, rose 7.63 points to close at 1 958.72 yesterday, but only after it had dropped by another 25 points at noon.

Brokers attributed the rebound to slightly lower yields in the bond market, which made bonds less alluring to investors

London share prices also fell on Thursday for the second day running, with the FTSE 100 index closing 17 points lower at 1 760.6

The sluggish mood on Wall Street was highlighted when Tuesday's release of the US trade deficit in March, at \$9.75 billion, was far smaller than expected, suggesting an overheating economy

Many dealers expected the US Federal Reserve to drive interest rates higher in an effort to rein in inflation. A move by the central bank toward higher interest rates would, however, tend to bolster the dollar

The negative reaction in US financial markets to Tuesday's news of a substantial improvement in the US trade deficit in March has sent a worrying message to markets overseas

This apparently contradictory behaviour highlights the extreme vulnerability of the mood in the US and provides evidence of a negative psychology which could prove destabilising and start to make policy decisions more difficult

There is a propensity in financial markets to read higher inflation into every economic statistic and to paint only extreme pictures of prospects for the US economy

In the wake of the uneasy financial markets James Baker, the US Treasury Secretary, will today seek to give added impetus to efforts by leading industrial nations to strengthen the international monetary system with proposals for tighter co-ordination of their economic policies.

In a speech in Paris to the Council on Foreign Relations of the OECD, Mr Baker is expected to call for closer cooperation in economic and exchange rate management in the Plaza and Louvre accords and at the Tokyo and Venice world economic summits

Turmoil^{5/10} in world²⁰ markets^{5/2} (156)

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Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation rates and higher interest rates continue to dominate financial and currency markets.

Gold, however, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much needed injection of confidence.

Gold is regarded as an inflation hedge and although the price fell slightly to \$456.25 in Hong Kong this morning, expectations of higher inflation rates will give the metal a further boost.

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● See Page 12.

Africa still pushing for international debt talks

Star 3/6/88

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ABIDJAN — African nations are pressing on with efforts to stage an international conference on their crushing foreign debt despite a cool response from creditors

"It's a very, very live initiative," Zambian Finance Minister Gibson Chigaga told Reuters in an interview yesterday.

The proposal, first floated three years ago, was revived by the Organisation of African Unity (OAU) last December under the chairmanship of Zambian President Kenneth Kaunda

Kaunda, whose country abandoned an IMF-sponsored programme of economic reforms a year ago in favour of a go-it-alone policy, ended his term as OAU leader last month.

Chigaga, who is attending the annual meeting of the Abidjan-based African Development Bank, said the OAU was still pushing the initiative for international talks despite repeated signals from major creditors like the IMF that they preferred a case-by-case approach

US Treasury Secretary James Baker, who is also at the Bank talks, stressed this policy on

Wednesday

He also announced a new initiative under which the US, which cannot legally write off debts or cut interest rates on official loans, cleared the way for its partners in the Paris Club of creditor nations to adopt such measures for Africa's "poorest of the poor"

Washington is prepared to go along with any other Paris Club members that want to stretch repayment periods to help them.

Uniform terms

The Paris Club governments had previously set uniform terms on bilateral loans for each debtor but Britain has pushed recently for borrowers' interest burdens to be eased

"I welcome that wholeheartedly," said Chigaga of the US decision, which Baker said could open the taps to substantial new relief

"It is a good move, and it confirms what we have been saying as Zambia, as in Africa, that there is no one solution to the problem," Chigaga added

Chigaga, criticising the inflexible nature of Paris Club negotia-

tions in the past, said last February borrowers had the role merely of "an unaccompanied debtor to stand trial before a council of creditors ... like a client unaccompanied by a lawyer"

The case-by-case strategy favoured by top lenders should not rule out an international conference on Africa's \$220 billion debt which he portrayed as a brainstorming session

"The most important thing is to exchange ideas ... to understand the debt crisis and how effective current initiatives have been, and to appreciate that in that context more ideas come up so we can solve the problem

"Naturally when it comes to the actual requirements of, say, Zambia, then we get the case-by-case issue"

He said a 12-nation ministerial panel set up to lobby support for a conference from creditors, multilateral donor institutions and Latin American borrowers, had started contacts

"Unfortunately we have yet to hear from the international community how they would like to respond to that call"—Sapa-Reuter.

... preliminary session.
Islamic financial instruments
take the place of stocks and

... George says. "Our
own system is not working, so I
thought, why not try this?" —
Sapa-Reuter.

IMF loan for Lesotho

WASHINGTON — The International Monetary Fund is to lend Lesotho \$10,9 million over the next three years. *Star 11/7/88*

In return, the Lesotho government will implement economic and financial reforms to slash its budget deficit, get inflation under control and reduce the country's trade deficit. *156*

After strong growth last decade, Lesotho has suffered in recent years from a sharp drop in farm output, caused by poor weather, and the closing of its only diamond mine.

Over the next three years, Lesotho aims with the help of the IMF to chalk up average economic growth of four percent a year, the Fund said. — Sapa-Reuter.

1. 291 of foreign

Zambia courts IMF but it may be too late to repair damage

By Pascal Fletcher

LUSAKA — Moves by Zambia to ease controversial economic controls imposed since a split with the International Monetary Fund (IMF) may be too late to repair damage to its international image and economic future

Economists, from Western donor nations, say Zambia's decision in May, 1987 to turn its back on IMF prescriptions will cost it dearly in terms of lost goodwill and credibility as an aid recipient in the eyes of the international financial community

"They did the wrong thing at the wrong time," said one Lusaka-based economist serving at a European embassy who asked not to be named

In a surprise move last month, the government lifted price controls on bread and wheat and President Kenneth Kaunda has since said he will approach the IMF and World Bank to discuss a possible new assistance programme, provided the terms were acceptable

However, many of Zambia's traditional donors, disappointed by what they see as the government's stubbornness in resisting IMF reforms, have already switched their attention and funds to neighbouring states like Malawi, Tanzania, Mozambique and Angola which are willing to accept aid-for-reform programmes

In embarking on its go-it-alone move, Zambia said the IMF policies were threatening the country's social and political stability

Western diplomats say Zambia, which a decade ago was a favourite of the aid community and enjoyed high hopes for its future, now runs the risk of turning into an economic pariah

"When you get a label like that, it is difficult to get rid of it," a leading Zambian commercial farmer added

er added

The government says it is still succeeding in mobilising foreign aid despite the hostility of many donors. It says recorded aid mobilised between last August and April, 1988 totalled \$457 million compared with \$565 million in 1986

But the diplomats say the country may have forfeited up to \$200 million in fresh aid funds from donors in 1988 alone

Zambia's commercial farmers in particular have welcomed the recent decontrol of wheat prices, which the government says is aimed at boosting domestic wheat production and curbing imports

"The trend in government policy seems to be switching back to deregulation and more economic prices," one farmer said "I think they're trying to mend fences," he added

Tight curbs

But many of the diplomats said they did not believe the latest price decontrol measures signalled any immediate shift in government policy, which has maintained tight curbs on prices of most essential goods, the exchange rate, interest rates and external debt servicing

They predict the government will "keep the lid on" until after general and presidential elections expected in November

And Kaunda, while he has described the existing subsidy system for essential goods — a massive drain on the treasury — as ill-conceived, insists that the subsidy on maize meal will remain in place

A government progress report on Zambia's go-it-alone economic programme says the economy's performance has been "better than envisaged" and says it should achieve the 2.2 percent growth target fore-

cast for the end of 1988

The report says the country's strategic copper mining sector, which accounts for around 90 per cent of total export earnings, is showing signs of progress along with the potentially rich farming sector

But Western diplomats say this has had more to do with record world copper prices over the last nine months and good seasonal rains than with government policies

The diplomats also point to Zambia's worsening debt position, which has deteriorated because of a government ceiling on debt service payments of 10 percent of net export earnings

They estimate that Zambia's payment arrears on its foreign debt, itself estimated at more than \$5 billion, totalled \$1.4 billion at the end of 1987. Arrears to the World Bank currently total around \$100 million while the country owes \$570 million in arrears to the IMF

These must be settled before Zambia can normalise its relations with the international financial community, the diplomats say

Despite its moderate optimism, the government admits its programme has not fully succeeded in tackling the problems of soaring inflation, a bloated government budget deficit, shortages of essential commodities and worsening unemployment

The World Bank estimates inflation to be running over 50 percent while the IMF says it could be as high as 90 percent

Government claims that the budget deficit was trimmed to 14 per cent of Gross Domestic Product at the end of 1987 from 30 per cent in 1986 are greeted with scepticism by the diplomats

"There is so much still to be done," one said — Sapa-Reuter

THE WORLD THIS WEEK

Scorched earth — man's pollution policy

AS the United States buckles under the impact of the worst drought in 50 years, American scientists have confirmed that man-made pollutants are producing the long-predicted and potentially disastrous "greenhouse effect" on the earth's climate.

Dr James Hansen, the director of Nasa's Institute for Space Studies and an expert on climate, told a Senate committee on the drought "It's time to stop waffling so much and say the evidence is pretty strong that the greenhouse effect is here."

The four warmest years in the past 100 have been in the 1980s. Armed with evidence that the first five months of this year have globally been a record 0.4 degrees Fahrenheit warmer than the 1950-1980 period, the agency revealed it has 99 percent confidence that temperatures in middle latitudes represent a real warming trend and not cyclical fluctuation.

As he spoke, agricultural experts warned that the world food stockpile could shrink to dangerously low levels over the next year, as the US grain-belt, the world's food basket, shrivels in the record temperatures.

Neither Hansen nor colleagues from other centres were prepared to attribute any one heat wave to the effect of fossil fuel burning in an increasingly industrialised world.

But one said "It is a warning. Whether or not it is related to global changes, it provides a taste of the dislocations society will face with an increasing frequency if we fail to act."

The greenhouse gases — carbon dioxide, methane, the chlorofluorocarbons which are also threatening the ozone layer, and nitrous oxide —

Scientists warn of a global drought through the greenhouse effect caused by pollution from industry and agriculture. By MICHAEL WHITE AND TIM RADFORD

let sunlight through but prevent the heat of the rays from escaping back into space.

Calculations at the Climatic Research Unit at the University of East Anglia suggest that global average temperatures have risen by half a degree in the last century.

The most conservative estimate is that world temperatures will rise in the next 50 years by one degree C. The most pessimistic predict another four degrees C.

"If we followed the upper end of the estimates and heated the globe by four degrees, well that is the difference between the depths of the last Ice Age and now," said Dr Richard Warrick, a scientist at the unit.

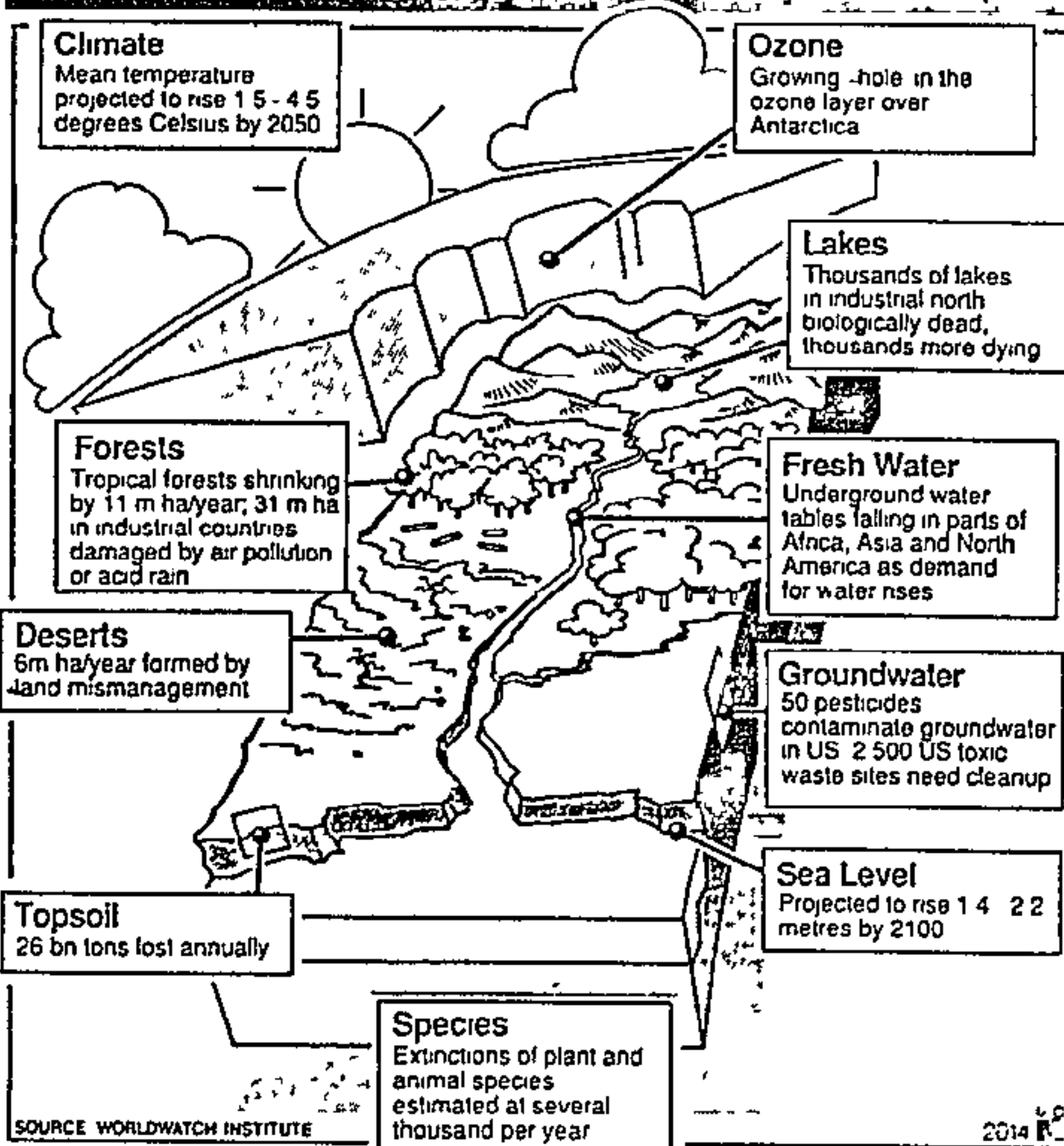
Like Hansen, Warrick was cautious about linking the drought with global warming.

The Senate hearings have been crowded with anxious politicians. As the drought has deepened, state governors have warned that food production is being seriously threatened and farmers are facing penury.

The senators have heard warnings that unless there are attempts to control atmospheric pollution from industry and agriculture, things will get worse.

"The whole greenhouse effect prob-

Global alert



Pollution steadily destroys the world's natural resources

lem as we go into the next century is going to be the major environmental issue to be faced in the 21st century. The cause gets back to the very essence of economy, energy use, agriculture and the world's way of life," said Warrick.

"That implies that either we change

or go ahead with the global experiment in which we are changing the environment of the earth."

Louisiana's Senator Bennett Johnson put it more succinctly "We only have one planet. If we screw it up we have no place to go." — The Guardian, London

Watching him wolf down my mini-pizzas, I wondered why

Million children abused yearly

Debt's too important for mere economists

THE formidable Dr Susan George is a brilliant exponent of the chains of cause and effect which consign millions in the Third World to a hell of ever-increasing debt and hunger.

Her books, *How the Other Half Dies*, *The Real Reasons for World Hunger* and *A Fate Worse Than Debt* describe exactly how Third World elites join hands with the Big Boys from the North in this danse macabre. She argues the Third World debt crisis is far too important to be left to economists: what's needed is a coalition of the people who matter.

Although George has become a major contributor to the field of development economics she is not an economist, a fact she regards as her secret weapon.

"I think economists are hung up in terrible jargon and divorced from the great ancestors of the profession like Adam Smith, Ricardo and Marx. Whatever their politics, they were deeply involved in a desire to improve the human condition. Today economists are deeply involved in formulas. Development economics is a narrow, navel-gazing profession," she says.

Top development economists at a Harvard University conference recently spoke blandly of the transfers of money which must continue to take place from the South to the North. This means substituting cash crops for export in place of food crops and negotiating real wage cuts of 30 to 40 percent in the Third World.

"Can this be a morally neutral stance?" asks George. "The International Monetary Fund is running the economies of some 48 developing countries. This entails devaluation of the currency, lifting subsidies and exporting at any cost. What is the result? A glut on the world market and Third World commodities at rock-bottom prices. And, of course, a phenomenon now known as IMF food riots."

These disorders lead to increasing militarisation in the Third World.

George wants to get the debt issue off the financial pages and into the public arena at all levels. She wants to see a broad coalition of farmers, trade unionists, manufacturers, exporters and citizens' groups of all kinds taking part in the debate and its possible solutions.

"Everybody thinks debt is boring and incomprehensible. It isn't. If you manage to keep it on the financial pages instead of on the agenda of every citizens' group in the land, you win," she says.

Third World debt is too important to be left to the formulas of IMF bankers, argues Susan George, author of *A Fate Worse Than Debt*. She talks to PATRICIA PITCHON.



Susan George

The debt crisis can be used by the industrialised countries as a powerful weapon to keep Third World countries in line politically, she says.

Women and children in the Third World are suffering more than anybody by cuts in their standard of living, she says. This is leading to increasing prostitution, harder work for longer hours with neglect in child care, more malnutrition, rising infant mortality and a return of diseases which previously had been almost eradicated.

In Kenya, George adds, women have lost control of the revenue from food crops they used to grow. Now, with cash crops grown for export, men have control of the purse. "They don't spend it on food, they spend it on beer," she says.

She argues you don't have to be an expert to understand that economic strategies concerned with the world market at the expense of local needs lead to the debt crisis.

Since the IMF, the "lender of last resort," demands draconian austerity measures in the Third World amounting to gross interference in domestic policy, why can't it interfere constructively and make basic needs the priority?" she says.

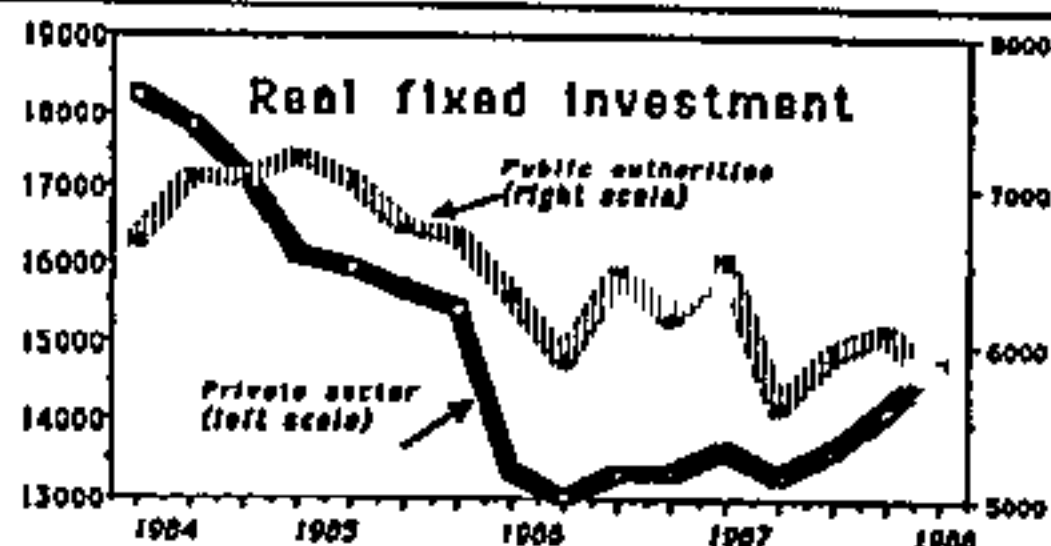
"There is not one case where the IMF demanded cuts in arms expenditure."

Interfering by requiring the creation of more democratic decision-making structures in order to meet basic needs first would be no more difficult for Third World governments to swallow than the present recipes for civil disorder, although George admits it sounds Utopian at present.

The solution cannot be left to governments alone. George foresees links between institutions such as the World Bank ("it took them 10 years to admit publicly that poverty lies behind hunger"), governments and citizens' groups with non-governmental agencies in the industrialised and Third World countries acting as crucial mediators — The Guardian, London.

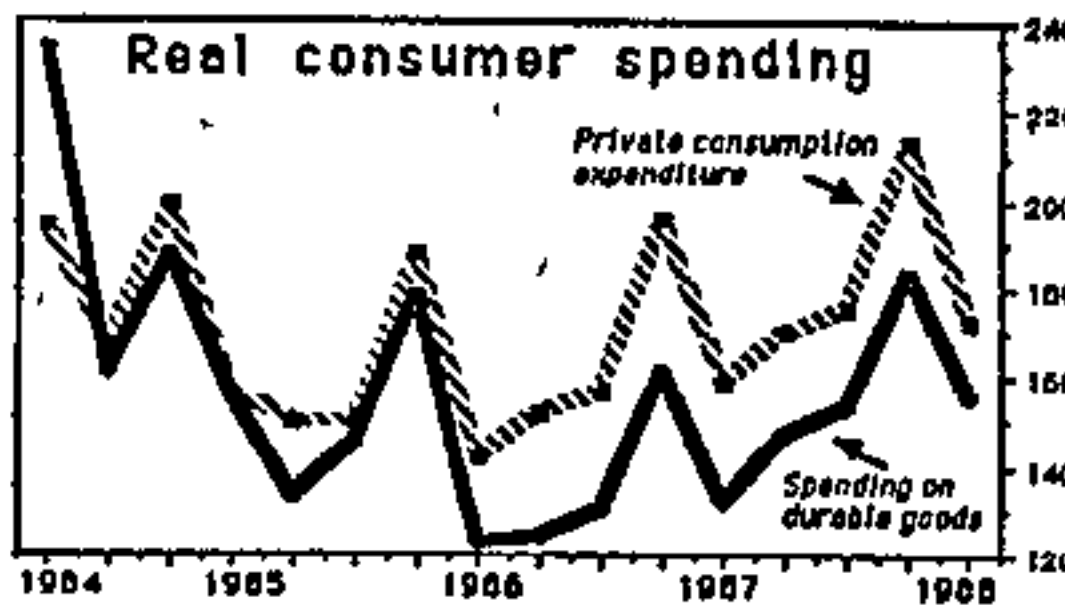
BUSINESS BAROMETER

GENERAL INDICATORS



INVESTMENT

As the graph shows fixed investment (in plant, machinery and buildings) by the private sector rose in real terms over the three quarters to March this year, but investment by public authorities has started to decline. Private sector fixed investment in the first quarter of this year was running at an annual rate 22 percent higher than in the first quarter of 1987 but the figure for public corporations was nine percent and for public authorities, less than 0.1 percent. Gross domestic fixed investment last year was still 25 percent lower in real terms than in 1980. Private business enterprises invested a total R19 billion last year, according to the Reserve Bank Quarterly Bulletin. In real terms this was almost 14 percent lower than the 1980 level.



CONSUMER SPENDING

A surge in consumer spending has contributed significantly to the economic upswing of the past few quarters. Much of this has been on durable goods (such as appliances, furniture and motor cars). As the graph shows, the trend in spending on durable goods almost exactly mirrors the overall trend in consumer spending. The figures are not seasonally

adjusted and so display some effects of the 'Christmas rush' in the final quarter of last year, rather than just the long term trend or effects of the economic cycle. Private consumption expenditure in the first quarter of this year was running at an annual rate (seasonally adjusted) almost four percent higher in real terms than in the first quarter of 1987. Spending on durables was up 17 percent, on semi-durables, three percent, and on non-durables (such as food) only 1.5 percent.

FINANCIAL INDICATORS

Johannesburg Stock Exchange Indices

JSE Indexes	5/7/88	WEEK AGO	% CHANGE
All Market Index	1819	1711	+6.3
All Gold Index	1366	1240	+10.1
Industrial Index	1673	1626	+2.8

Short-term interest rates

	5/7/88	WEEK AGO	YEAR AGO
Three month bankers acceptances	12.1%	12.1%	9%
Prime overdraft rate	15%	15%	12.5%

Gold Price

	5/7/88	WEEK AGO	% CHANGE
	436.90	434.70	+0.5

Selling price Major currencies against rand

	5/7/88	WEEK AGO	% CHANGE
US dollars	2.3400	2.3190	+0.9
Pounds Sterling	4.0285	3.9270	+2.5
Deutsche Mark	0.7725	0.7853	-1.6
Yen	56.85	57.37	-0.9
Swiss Franc	0.6420	0.6488	-1.1

US Dollar against major currencies

	5/7/88	WEEK AGO	% CHANGE
Dm	1.8083	1.8210	-0.6
Sterling	1.7125	1.7088	+0.2
Yen	133.03	133.05	+0.01
SwFr	1.5032	1.5045	-0.08

The hawkers call and Gillette answers

BY MZIMKULU MALUNGA

HAWKERS have called on the private sector to fund an Employment Creation Project — and at least one company has responded.

Nomsa Mokae of Achib — the African Council of Hawkers and Informal Business — said so far the scheme has created over 900 jobs. But "the problem is not only licences, but also capital", she said.

The scheme was mooted last year in the wake of a high unemployment rate in the country. "Unemployed people come to our offices for help and we don't have money to fund them, that's why we are calling on companies to help us in this regard," she said.

Participants in the project would sponsor a group of five prospective hawkers by paying each R135 a month to cover the cost of fees and stock.

She said the project would also be used to provide an outlet for people who wanted to launch new products on to the market. However Achib required those companies to give discounts to the hawkers as well as contribute to the association's deregulation drive.

Mokae said Achib has written letters to 21 companies asking them to sponsor the scheme, and Gillette SA

Limited had promised to sponsor people in the East Rand.

Gillette managing director, John Ford, told *Weekly Mail* the company was "fitting in the scheme which Achib has put together to give employment to people as hawkers". If the project went well "we will expand the operation".

Meanwhile, Laurence Mavundla, Achib president, said this week letters had been sent to 40 companies asking them to become part of a "hawkers' deregulation drive".

In the letter the organisation indicated some municipal by-laws which governed the hawkers' trading practices have been changed in eight city councils on the East and West Rand and in Johannesburg.

These included:

- The reduction of the distance the hawker had to maintain from a general dealer from 400 metres to 100 metres.

- The lengthening of the time hawkers can stay in one spot in a restricted area — from 20 minutes to two hours — and the demarcation of areas for hawkers.

- The abolition of the requirement that hawkers had to place an advert in

both English and Afrikaans newspapers stating their intention to hawk.

Achib said in places where the deregulation drive had been successful, hawkers are trebling their incomes and moving up the scale to tuck-shop ownership. "We also had several applications for formal shop ownership." With these the association said the private sector was going to benefit and the economy of the country could also be bolstered.

Achib said it had so far managed to licence 9 600 hawkers in Johannesburg, 3 000 in Tembisa, over 1 000 in the Vaal, 30 in Vosloorus, and 300 in the western Transvaal town of Carletonville.

Addressing the Institute of Directors luncheon at the Braamfontein Hotel, Mavundla listed problems faced by unlicensed hawkers as follows:

- They did not have access to finance or to major wholesalers.
- They were victims of harassment by police.

He said the hawkers' combined buying power was R1-billion annually and with the help of the private sector "the buying power of these people could reach R22 billion".

"They are tomorrow's banking cli-

● To PAGE 19

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SA fares best in the debtors' line-up

By Sven Lunsche

In nominal terms South Africa is sub-Saharan Africa's second biggest debtor, but the country's is undoubtedly in a much better financial position to meet its foreign debt commitments than any other African country.

As a percentage of exports of goods and services, foreign debt fell to 93 percent in 1987 from 108 percent in 1986 and 156 percent of total export earnings in calendar 1985.

However, substantial debt repayments in the course of 1987 did not succeed in reducing the total amount of South Africa's foreign debt outstanding in dollar terms, which stood at \$22,6 billion at the end of both 1986 and 1987.

Thus was the result of the sharp depreciation of the US dollar against all other currencies.

The repayments, coupled with the appreciation of the rand against the American currency in 1987, how-

ever, caused the foreign debt outstanding in rand terms to contract from as much as R65,8 billion at the end of August 1985 to R49,5 billion in December 1986 and R43,6 billion at the end of last year.

But pressures on the surplus on the current account of the balance of payments have made it more difficult this year than previously to meet the repayments.

Under the terms of the second debt rescheduling agreement hammered out by South Africa and 34 creditor banks in March last year, South Africa still has to pay about half of its \$1,42 billion debt commitment by July 1990.

Once these payments are met, the country still has about \$10,5 billion "frozen" under the August 1985 debt standstill agreement, while about \$10 billion of official debt outside the net will have to met on the original maturing dates.

Nevertheless, this position looks

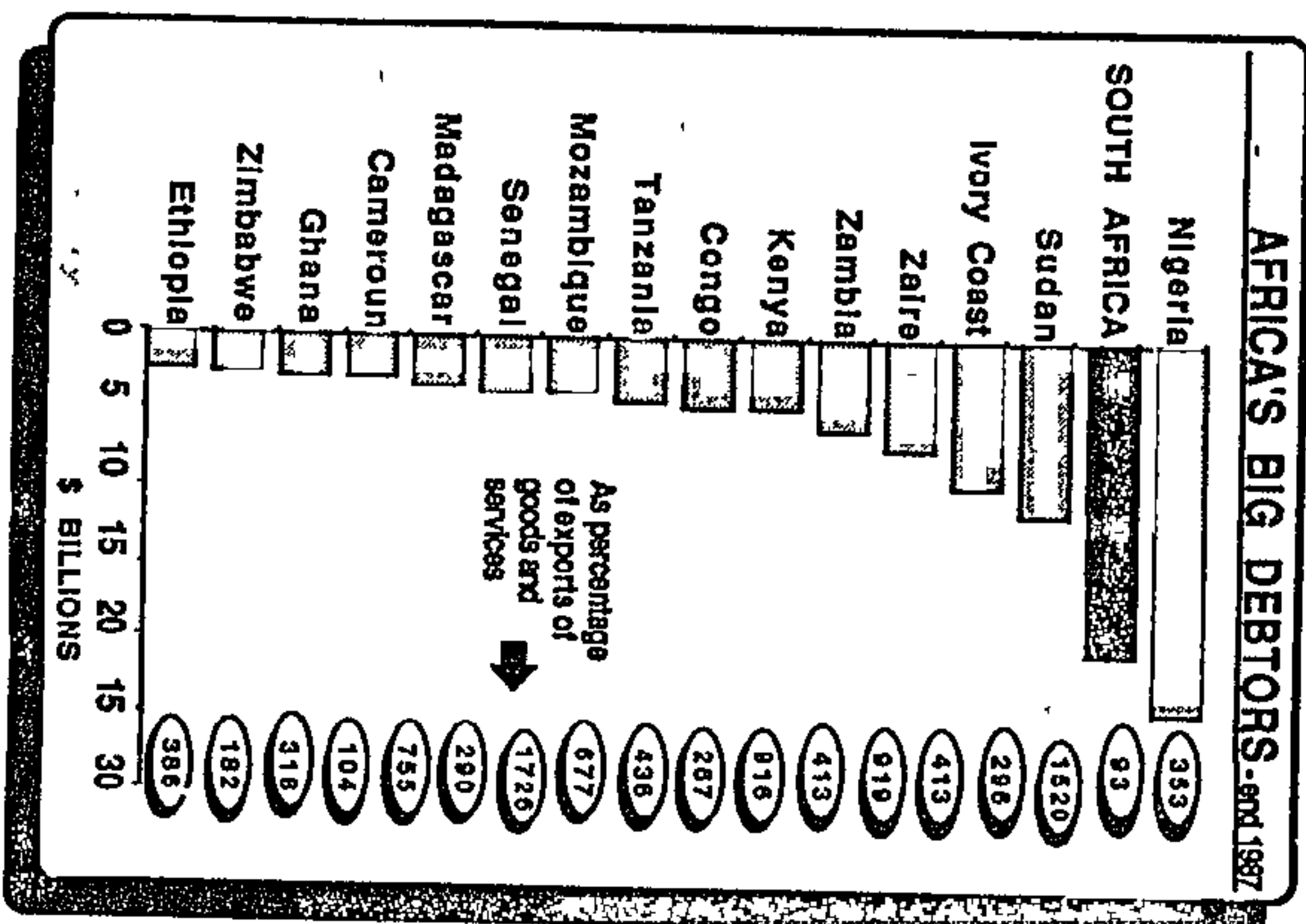
comfortable, when compared with the debt situation of the other 44 countries in sub-Saharan Africa.

According to the International Monetary Fund (IMF), since 1980, low commodity prices, shrinking real output per head and bad policies have created a position which is "without parallel".

The Economist writes in its latest edition that by the end of 1987 sub-Saharan Africa, excluding South Africa, had a tenth of total debt of capital-importing developing countries a total of about \$120 billion, plus \$11 billion in arrears and \$7 billion of outstanding IMF credit.

Only 12 of the 44 countries have paid promptly without rescheduling or falling into arrears. The top five of these debtors owe more than half the outstanding money. Of the 24 countries that rescheduled their debt between 1980 and 1987, Madagascar, Senegal, Sudan and Zaïre did so five times or more

Finance



Barend waits for Perez

CAPE TOWN — Finance Minister Barend du Plessis is to delay his departure to West Berlin, where he is to attend the annual meetings of the World Bank and IMF, to review with UN Secretary-General Javier Perez de Cuellar how the international community will take over financing Namibia during the implementation of UN resolution 435.

This is a major item on the agenda between President P W Botha, Cabinet members and Perez de Cuellar, in talks in Pretoria today and tomorrow.

The cost to SA of funding the Namibian administration and its debt commitments is about R1bn. Added to this is

the cost of defending the territory's borders — a combined commitment that has to be faced in dealing with Namibia's transition to independence.

Du Plessis is now only expected to depart for Europe at the weekend where, apart from attending the IMF meetings, he is expected to hold discussions with a number of SA's foreign creditor banks.

□ Perez de Cuellar was due to arrive at Waterkloof Air Force base at midnight, having being delayed in Paris.

CHRIS CAIRNCROSS 22/1/88

(156) B/day 23/1/88

IMF expects real growth of 4%

WEST BERLIN — The IMF was expecting real growth to average about 4% in the major industrial countries this year with inflation at about 3%, IMF MD Michel Camdessus said yesterday.

He said at a preliminary IMF-World Bank meeting that growth next year would be "slightly lower" but on the whole he was optimistic about the prospects.

Camdessus said: "It is particularly satisfactory that investment spending has been the locomotive for

GRETA STEYN

growth in industrial countries this year"

Progress had been made towards resolving the trade imbalances, with growth in the US led by investment and exports and not so much by domestic demand. The opposite trend had occurred in West Germany and Japan.

However, he shared the concern of the West German authorities that its

and Japan's trade surpluses were not declining rapidly enough.

Camdessus said: "The recent upward movement in the dollar is not what could be considered the most desirable development. It will make the reduction of the US BoP deficit somewhat more difficult."

However, the exchange rate situation did not warrant "too much" concern and central bankers did not appear "too unhappy" with the situation.

The New York Times

US is poised to return to space to revive a flagging civilian space programme.

THE TIMES

Soviet reform programme facing defeat (Gorbachev blames press for confusing public).

FINANCIAL TIMES

G7 nations seek calm financial markets in run-up to US election (IMF meeting in Berlin).

Daily Mail

BBC in new IRA storm (interview with Sinn Fein leader slipped into programme)

Turkey despite

'Rich spending lavishly while poor face huge debt obstacles'

Thousands march against IMF

By Magnus Heystek, Finance Editor

WEST BERLIN — This was a city under siege yesterday as an estimated 80 000 demonstrators marched through the streets, ending a week of unprecedented protest against the International Monetary Fund (IMF), the World Bank and the capitalistic system they are viewed as representing.

Security arrangements for the estimated 10 000 delegates from around the world, including finance ministers and reserve bank governors from more than 150 IMF-member countries, were extremely tight with police reinforcements flown in from other German cities to supplement the already formidable West Berlin force.

All major hotels where delegates were staying for the week-long event as well as the conference centre itself were heavily guarded. Entrance was restricted to delegates and journalists, and police, many in armoured cars, patrolled the area where the protest march took place.

The protest actions were organised by a broad spectrum of opposition groups spearheaded by the "Alternative Liste", Berlin's version of the Greens, a West German political party.

'Not welcome'

"We want to show the bankers they are not welcome in Berlin," proclaimed Mr Volker Ratemann, one of the political organisers.

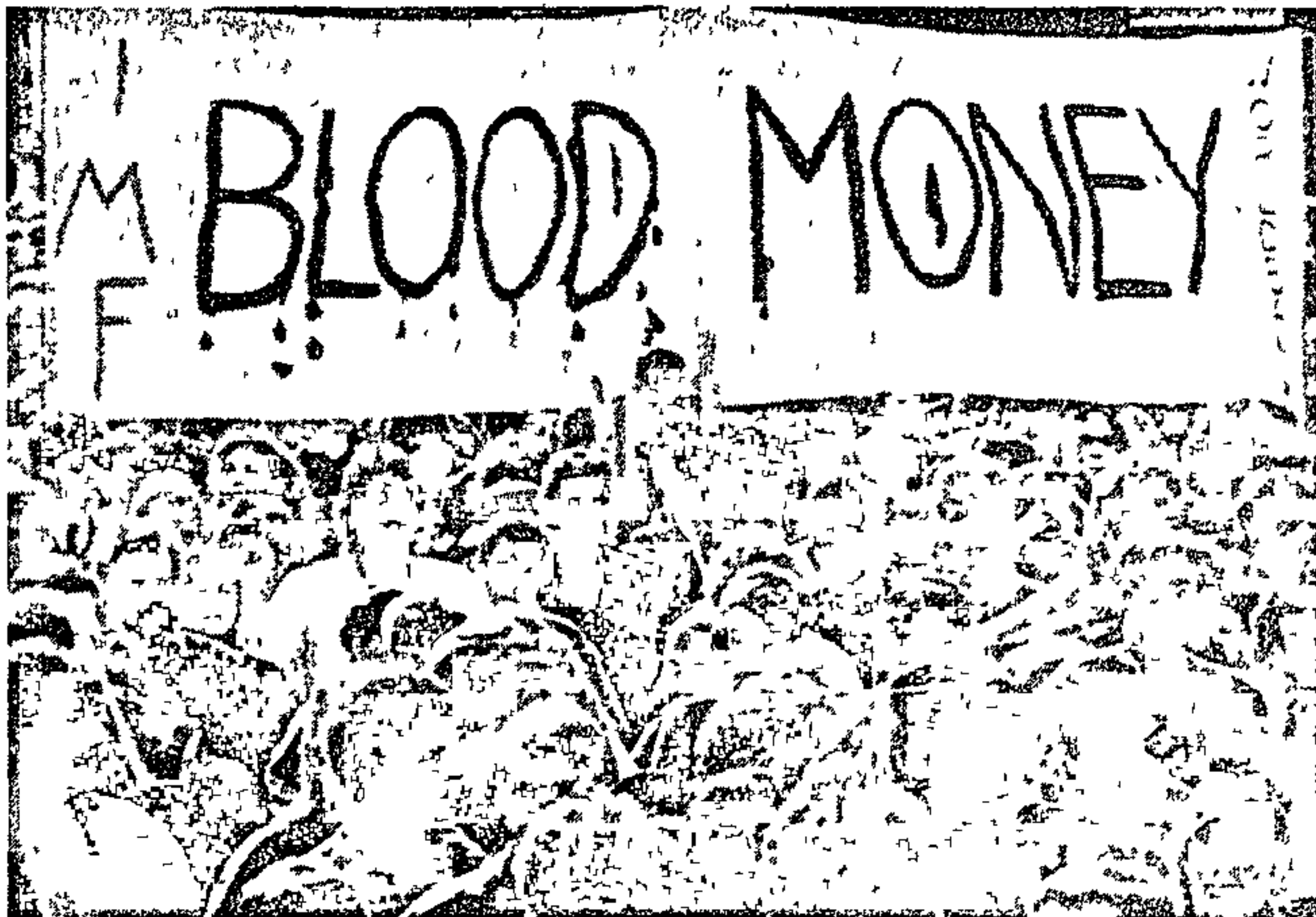
Central to the protests against the IMF and World Bank is the allegation that a privileged few are gathering in Berlin and spending lavishly as poor nations with massive populations struggle under seemingly insurmountable debt problems.

This, however, has been strenuously rejected by IMF officials, who warned that the demonstrations "will harm the cause of the world's poor nations".

Despite fears by the IMF and the police that the legitimate rally would be used as a smokescreen by some obscure anarchist groups, the demonstrations went off relatively peacefully, ending 100 m from the enormous International Congress Centre, where the annual IMF conference was in progress.

First signs of pending trouble surfaced some weeks ago when 14 cars in various parking lots in Berlin were simultaneously gutted by extremist groups.

This was followed by a botched murder attempt on a high-level official in Berlin's Finance Ministry last



Demonstrators in West Berlin show their opinion of the World Bank and International Monetary Fund policies on Third World debt.

week. The outlawed Red Army, a revolutionary terrorist group, claimed responsibility for the attack.

In recent weeks some buildings in Berlin have also been daubed with anti-IMF slogans while crude letter bombs were sent to 11 West German bank branches, in one instance causing damage estimated at approximately 1 million marks (about R700 000).

● Japan unveiled a new scheme yesterday to put its massive trade surplus to work in helping the debt-laden Third World, reports Reuter.

"Japan is ready to make additional untied loans on a case-by-case basis to support mid-term efforts by middle-income nations to restructure their economies," Bank of Japan governor Mr Satoshi Sumita told the IMF's Interim Committee.

● In an unprecedented break with past practice,

the World Bank has agreed a \$25 billion (about R62.5 million) package of new loans for Argentina without first waiting for agreement to be reached with the International Monetary Fund on an economic adjustment programme, reports *The Independent*.

The timing of the deal, which still has to be ratified by the World Bank board in October, caused surprise because it comes at a time when Argentina has been having difficulty reaching a deal with the IMF.

This has given rise to suspicions that the US has been putting pressure on the World Bank to agree a package in order to help the Argentine government in next year's presidential elections and preserve the country's fledgling democracy.

● See Page 13

Barend appeals to IMF for aid to Africa

Cap Times 27/9/88
156

WEST BERLIN. — South Africa, appealing yesterday for more economic support for black Africa, said its ability to help its neighbours was limited by the impact of anti-apartheid sanctions and its own debt-service burden.

Finance Minister Mr Barend du Plessis told the annual meeting of the International Monetary Fund and World Bank that South Africa would seek greater co-operation within the region to increase trade and the exchange of technical know-how.

But he added: "Because it has large internal economic needs to address and because it has become subject to abnormal external constraints, South Africa's ability to provide economic support to neighbouring countries is regrettably limited."

Sources in the South African delegation said he was referring to both the impact of sanctions and the need to make foreign debt repayments under an accord reached with creditor banks in 1986.

Mr Du Plessis called on industrial countries to reverse what he termed the ever-increasing trend towards greater protectionism.

To page 2

From page 1

IMF
Cap Times 27/9/88
156
"The world must guard against the unwarranted extension of restrictions on trade and capital flows," he said.

Mr Du Plessis said Pretoria fully backed IMF and World Bank efforts to ease the debt crisis in sub-Saharan Africa, but he was cautious on plans to cancel or "forgive" foreign debt.

"The private banks of the world or their shareholders cannot be expected to write off lightly by decree debts against hard-earned profits," he said.

"Likewise, it cannot unreservedly be expected of taxpayers in creditor countries to foot the bill through additional allocations made for this purpose in the budgets of their governments" —

Sapa-Reuter

(156) 8/day 29/9/88.

FIRST signs of what could presage an important change in the future roles of the International Monetary Fund (IMF) and World Bank were evident at their annual meetings in West Berlin this week. As the process continues, there could be substantial advantages for rich and poor countries alike.

Both agencies — but especially the IMF itself — would then be in a position to enhance substantially world growth trends and influence policymakers towards sensible economic policies that will ginger up both savings and business investment.

These signs of change can be seen from several related developments. First, there has been a profound change in the nature of the facilities the fund is granting. They are swinging away from short-term balance of payments crisis management.

For the past 17 years the fund has tended to give this type of assistance to countries whose reserves have come under pressure, and it monitored economic policies of those it assisted to try and avoid a recurrence.

Prior to the break-up of the Bretton Woods fixed exchange rate system in 1971, the fund's role had been much more central. It was created in 1944 to regulate the fixed exchange rate system and to provide bridging finance to countries with debilitating external trade deficits.

But a characteristic of a fixed exchange rate system is that foreign reserves invariably come under severe pressures as central banks intervene in markets to hold exchange rates at predetermined levels, despite the pressures that trade deficits may be exerting on their currencies. That was why the system ultimately was abandoned.

But while it was in operation, member countries frequently had to boost their own resources by borrowing from the IMF and submitting to its disciplines. Since the major trading currencies have been floating, the exchange rates themselves have — through the market — tended to adjust trade imbalances, except where authorities intervened to inhibit this process short-term.

The outcome has been a reduced demand for IMF standby facilities.

Moreover, when trade imbalances occur now, the countries concerned have tended to attempt to co-ordinate their policies outside the aegis of the fund through various groups and clubs. This is a process that the fund has been encouraging.

Consequently, in recent years the IMF has changed the nature of its funding facilities by concentrating instead on making more medium- to longer-term loans for restructuring programmes, to encourage economic growth that would help deflect or even avoid recurrent balance of payments crises. It is a form of preventive financing.

So today the fund offers an Extended Fund Facility (EFF), a Structural Adjustment Facility (SAF) and an Enhanced Structural Adjustment

World Bank and IMF roles seem to be merging

There are signs of important changes developing in the roles of the International Monetary Fund and World Bank. NIGEL BRUCE, Editor of the Financial Mail, reports from West Berlin

Facility (ESAF) which are no more than packaged variations on this new type of structural financing.

The important thing about these facilities is that, by their very nature, they are less able to be spent by the recipients in a way that encourages inflation. But, at the same time, the formal conditions attached to them are less onerous than those for standby credits.

Of course, this type of financing encroaches substantially on the development lending of the World Bank and its agencies, which some economists believe have done more harm than good in the Third World. Projects were inappropriate and conditions too few.

If the new trend continues — and there is every reason to believe that it will — then the line between the two institutions will blur and in the future disappear.

Significantly this week the bank also crossed the line by itself, granting a US\$1.2bn loan package to the

Argentine to enable it to finance social reforms, open up domestic trade, build cheap houses and improve its electricity supplies.

As the Argentine is about US\$1bn in arrears on its interest payments to some commercial banks, bankers in Berlin had misgivings about the World Bank granting a facility to a country without the tight conditionality normally insisted on by the fund.

But the interesting thing is that this loan does carry conditions that in many ways resemble a fund rather than a bank facility. So it is being seen as collaboration rather than competition between the two institutions — a matter dwelt on at some length in the fund's annual report, which contains further suggestions that their respective roles are merging.

The importance of sustaining growth in the industrial countries and the persistence of the debt problem in the Third World has been

another motivation in the fund's changing financing policy.

This was made very clear in the main address of the fund's managing director, Michel Camdessus. He said: "Sound fiscal and monetary policies provide no more than a supportive environment for growth. Whether growth is strong or weak depends on the savings, investment and resources allocation decisions of society."

This means that markets must function efficiently. And the fact is that over the years the industrial economies have accumulated a complex array of rigidities and impediments to efficiency. It is the task of the structural policies to correct this. They need to be removed from the periphery of economic policy to centre stage.

Another reason is that the fund believes Third World debt repayments and economic growth are objectives that cannot be separated.

According to Camdessus "The problem faced by countries with debt difficulties is not simply one of failure to adjust. For the most part these countries have achieved substantial improvements in their trade balances, often despite adverse movements in their terms of trade."

"The problem is that the progress achieved has not been sufficient to support an adequate level of output or export growth, or to create adequate employment opportunities... Too often it has been at the cost of a sharp drop in imports and domestic investment."

Both the fund and the bank are giving financial support to the world's low income countries that have little chance of repaying their US\$2bn or US\$3bn of foreign debt and whose chances of economic recovery are for various reasons very slim.

There is acute awareness among prosperous industrial nations that these basketcase economies, which are mostly in Africa, have not shared in the prosperity of the past few years and are pretty much beyond political and economic redemption. It is in this context that the question of debt "forgiveness" is being discussed.

But the IMF and donor governments — and even the World Bank — are aware that most of these countries are victims of their own politics, with little ability or will to apply sensible and honest economic policies. Nor are they bereft of resources.

The irony of the changed focus of the fund is that it is reducing its world central banking role just as the Europeans are discussing the formation of a European central bank with regional objectives that approximate those of the IMF internationally. Much of the fund's monitoring and statistical work has also been taken over by regional agencies.

The fact is that the IMF in its present form is probably something of an anachronism, and that its resources and admirable disciplines could be put to better use by its changing endeavours.

The fund has often in the past differed philosophically from development aid agencies, especially the World Bank. As a result it has been criticised by the Third World for lack of sentiment and seemingly harsh conditionality. The important thing in its new role is that this attitude of mind does not change.

The interesting thing, too, is whether SA may eventually have greater access to the fund as a result of this change. Its access to standby facilities remains in theory, but fears that it could become a political issue in the US have really ruled out any application.

The new facilities might not be as politically sensitive and, in any event, per capita income has fallen so much in SA in recent years that on that basis alone it may qualify soon for World Bank aid. The politics of that situation have still to be explored.

Harry Schwarz part of the team

GRETA STEYN in West Berlin

AMONG the South Africans at the IMF/World Bank meetings is PFP MP Harry Schwarz — for the first time a member of the official SA delegation. "The PFP was included in the official party for the first time as a strategy to show that we represent SA rather than the government," says Schwarz.

He reports a growing realisation among South Africans that the country is part of the Third World, and that the problems and challenges facing other developing countries are its problems, too.

"Attitudes towards the debt crisis, social implications of debt repayment and the need to build longer-term infrastructure are very much in line with the feeling of other Third World countries here."

The Third World is the burning issue, if only because of the protesters who blame the IMF and World Bank for the debt crisis, and accuse them of not doing enough to help. Officials have been at pains to address the issue, if not with concrete proposals. World Bank president Barber Conable said reducing the "moral outrage" of poverty was the bank's central goal.

The IMF's Michel Camdessus, deploring the outflow of funds from the Third World, made a firm plea to industrialised countries to increase their aid by boosting grants, concessional loans and contributions to the IMF.

But there has been little in the form of concrete action, and SA shares the Third World's frustration on the issue. Ironically, says Schwarz, it needed a trip to Berlin to jolt many South Africans into realising where their roots

were. They even have it in their hearts to sympathise with the demonstrators, who are outraged at the lavish parties thrown here while "millions are starving".

Finance Minister Barend du Plessis, in his discussions with senior officials, is stressing the role SA can play as a force for development in Africa.

Schwarz said an effort was also being made to represent SA, its people and its problems, and not specifically the government. But while SA might happily beat its Third World drum, it is still an outcast. It has no access to IMF finance when the current account on the balance of payments runs into deficit, and has been shunned by the world's bankers.

As Finance Director General Chris Stals says: "SA's problem is not a debt problem, it is a political problem. Our ratios of debt to exports are nowhere near as bad as the poor countries' figures."

Schwarz notes that SA's continued membership of the IMF remains an issue. "The atmosphere vis a vis the delegation is quite pleasant and harmonious, but there is always an underlying possibility that there might be a new initiative to get SA ousted. This is the only major world body on which we are still represented, and the undercurrent of fear that it might come to an end is there."

Third World unhappy with debt concessions

WEST BERLIN — Poor countries yesterday poured cold water on new plans to ease the debt crisis and called on rich nations to do more to alleviate poverty and stave off social unrest in the Third World.

The plans were "far below Africa's immediate requirements", said Botswana vice-president Mr Peter Mmusi. He was speaking on behalf of African countries at the annual meeting of the International Monetary Fund (IMF) and the World Bank.

Colombia's Finance Minister, Mr Luis Fernando Alarcon-Mantilla, told delegates from 151 countries that Latin America had lost a decade of development because of the debt crisis.

The Third World's criticism deflated some of the optimism generated here by the announcement of new schemes to tackle the debt crisis.

Ministers from rich countries had agreed to help sub-Saharan Africa by cancelling some debts, reducing interest rates or stretching out repayments.

● Outside the congress hall, confrontations between police and people protesting against IMF and World Bank policies in the Third World have grown steadily more violent. Police said 100 people were held yesterday after demonstrators smashed hotel and shop windows and damaged cars. Hundreds of police clashed sporadically with a main group of about 1 000 demonstrators in the central shopping area of West Berlin.

— Sapa-Reuter

the outlook for bullion rather than group direction and management

Some local analysts take a harsher view. Favourable as the profit figures seem, they point out that Cons Gold often includes items such as asset realisations in pre-tax profit (£41.3m in 1987 and £97m in 1988) if these are excluded, 1988 profit fell. Added to that is the sinking gold price.

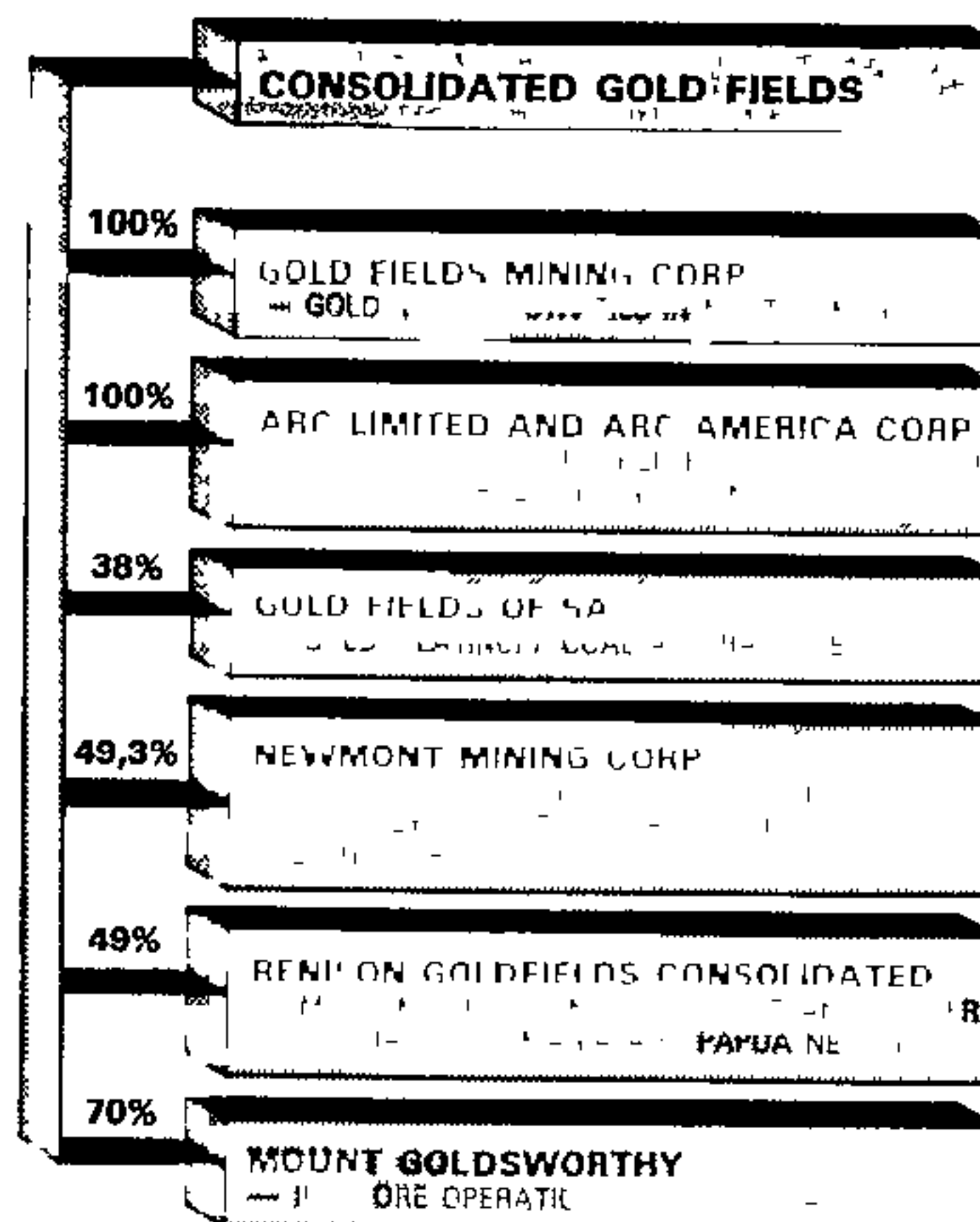
The quality of earnings could feature in the battle. Local analysts feel that, on earnings considerations, the effective £13.06 offer carries an attractive premium and Cons Gold would be hard placed to defend on these grounds. Instead, the major points expected in its formal defence, due on October 19, are the "pariah argument" and that the offer substantially undervalues assets.

Talk in London is that Cons Gold will claim its true value is £20 a share (£4.5bn), though brokers there think a case can be made for £17, which would total around £3.8bn or £900m more than the Minorco bid. The £17 is derived from:

- Newmont at its market price of £675m. Newmont is selling assets to reduce debt incurred in beating off T Boone Pickens but stands at a discount. Its market capitalisation is \$2.3bn but the biggest asset, the expanding, 90%-owned Newmont Gold, has a value of \$3.5bn.
- GPMC, whose two US gold mines, Chimney Creek in Nevada and Mesquite in California, produce 350 000 oz/year, at £740m. This is based on the market rating of Newmont Gold.
- SA interests (38% GFSA and other direct holdings) at £430m.
- Renison at market price of £241m;
- ARC at £1.5bn, capitalising its pre-tax earnings of £104m plus valuable properties in the south of England and at least 2bn t stone reserves, and
- Others, including Mount Goldsworthy, at £200m-£220m.

There are at least two problems with these figures. One is the gold price. Newmont Gold is expected to raise production from

Minorco's target



786 000 oz in 1987 to 930 000 oz this year, but the valuation — on a prospective p.e. with gold averaging \$450/oz, of 36 — is looking at 1991 and target output of 1.6m oz.

Secondly, much depends on the p.e. accorded wholly-owned operations, which could be put in at anything from eight to 20 times. Some analysts reckon the former more realistic and calculate a net worth for Cons Gold of only £12 per share. Michael Coulson, of London broker Kitcat & Aitken, for example, gave this as the break-up value after Cons Gold's results a fortnight ago. Anderson Wilson's James Picton agrees.

Minorco calls its offer "full and fair" but will surely be prepared to raise the ante — if not as much as many think. Even at £13.06 it could need asset sales to avoid substantial earnings dilution. The consensus in London is that, while Minorco will have to sweeten its price, there is no reason why the bid will not go through, barring a counter offer.

The obvious saviour is RTZ, capitalised at £3.4bn. The other possible contender (unless an Australian conglomerate steps in) might be British Petroleum, but it has just put off flotation of BP Gold because of the bullion

price and is unlikely to want to pay a premium for Cons Gold's production.

A condition of the bid is that Minorco may withdraw if it is referred to the Monopolies & Mergers Commission. As no monopoly is being established (ARC only has about 20% of the UK aggregates market), the only grounds could be that it was against the national interest, which is hard to prove.

Cons Gold's contention that the SA connection would damage business — contracts with Labour-controlled authorities in the UK and liberal states and municipalities in the US, where ARC is the fifth biggest in the market — is not a valid claim in the UK. Minorco, incidentally, retorts that direct and indirect SA interests in Cons Gold are probably close to 40% anyway.

There is a lot of guessing who owns sizeable blocks of shares — and either side could emerge with a trump card. Cons Gold seems less worried about who holds how much than is suggested by outside estimates. Last week, the number of outstanding call options was equal to 8m shares (3.6%). On latest published estimates big holders include: Minorco 29%, Bank of Bermuda 5%, Anglo/De Beers collectively 5%, Rembrandt 4.9%, GFSA/Driefontein 7.6%, Barrick Resources 1.7% and speculators 5%.

GFSA chairman Robin Plumbridge says he is standing by Cons Gold. It is assumed that Bank of Bermuda, Barrick and the pre-bid speculators are in the bag to give Minorco 45.7%. So Rembrandt, which has so far remained silent, could tip the scales.

Should the bid succeed, Rembrandt's stance could have major ramifications for SA mining. It has a right of first refusal rather than an option on Cons Gold's 38% of GFSA, so the price offered could determine the buyer. Given that the timing hardly looks ideal for Rembrandt, a strong bid from, say, Gencor, might succeed. Or the shares could go to a consortium of institutions. Least likely is a buyer outside SA, so if Minorco gets Cons Gold that must presage intense pressure on the financial rand.

In any event, analysts believe that regardless of whether this bid succeeds, Cons Gold is "in play". Someone will take it over, or merge with it. Minorco wins either way.

□ See **Fox** Andrew McNulty and John Cavill

IMF/WORLD BANK MEETINGS

Credit where it's due

■ *FM* Editor Nigel Bruce reports from the annual general meetings of the International Monetary Fund and World Bank in West Berlin

There is a smugness among the rich at this year's meetings; and it suggests a lull before a storm. After six years of unrequited prosperity — and the failure of even the October equity crash to provoke a recession — they are nothing if not satisfied.

Indeed, latest IMF forecasts are that growth in some of these economies will be much higher this year than expected only five months ago. Who in these circumstances would wish to be reminded that important destabilising realities remain — and could

yet provoke crises similar to the October crash? If that were to happen the consequences could be serious and sustained.

It would be churlish not to give credit for the prosperity of the past 18 months. Inflation — the containment of which enabled

that growth to take place — is still relatively low, exchange rates have been stable, business investment is buoyant in response to high capacity utilisation, and unemployment is receding. In short, the rich have not had it so good since the inflationary excesses of the late Sixties and early Seventies.

But the unfortunate fact is that there has been little real progress in reducing the twin US deficits. Since the dollar has recovered, and against all logic is still firming, the trade deficit has shown little inclination to decline. The federal deficit is at the whim of politicians yet to be elected who are, therefore, understandably cautious over specific policies they might take to induce austerity.

Nor are countries with large surpluses — Japan and West Germany — enthusiastic about limiting their own trade advantage, especially while US fiscal policy remains in hiatus, and will most likely remain profligate even after the election.

The Americans would like to see a removal of trade barriers and, especially, some enthusiastic supply side policies in both Japan and West Germany to transfer growth from exports to their domestic markets. So far as Japan is concerned this has begun, but its pace is not impressive.

In short, both sides want to avoid the fundamental and inconvenient policy changes needed to sustain what already amounts to an unusually long period of economic growth. Yet they are equally unwilling to allow the foreign exchange market to bring about these adjustments.

Instead, they are attempting to use a market agreement on exchange rate stability as a prophylactic. Well, experience has shown that market stabilisation measures, while good central banking if the objectives are limited, cannot reverse a trend.

Essentially, therefore, the developed countries, by avoiding fundamental policy adjustments and relying on a market agreement to keep exchange rates stable, are pursuing contradictory objectives.

Historically, after any long period of growth, major industrial nations have experienced at least some inflationary pressure. It would be unusual if this was not to occur now, as capacity utilisation is high.

Certainly, such pressure appears to have surfaced in Britain, in response to a series of rapid interest rate rises. Last week there was a 1.5% rise in some mortgage rates. Chancellor of the Exchequer Nigel Lawson warns against extrapolating the latest statistical fluctuations in a pessimistic direction, and he is probably right. But expectations in Britain remain that inflation will rise from the pre-



Editor Nigel Bruce

sent 5% to 7% by the year-end. And that suggests that further interest rate increases are ahead.

Lawson has rightly set his face against calls to raise taxes to curtail domestic demand. He warned the interim committee of the IMF against using fiscal policy for short-term demand management objectives, saying "Fiscal policy is particularly unsuited to this role. It takes too long to put changes into place. Fine tuning is impossible, and the only unambiguous consequence is disruption of the supply per-

formance of the economy."

The general feeling at these meetings is that interest rates in the industrial nations are not on the point of surging ahead. But they could well firm in the months ahead. Crucial to interest rates, of course, are both inflationary pressures, which could be stronger than statistical fluctuations suggest, and reducing of the US federal deficit. Unless it is circumscribed, any overheating in the US economy will have to be met by monetary adjustments, which implies high interest rates. The same logic will apply if reality should return to the dollar's value and it proves beyond the capacity of the central banking accord aimed at its stabilisation.

Third World debt, while it remains a serious problem, is no longer critical. Material progress has been made by some larger creditors, though others remain substantially in arrears. In the absence of other more pressing problems — or a willingness to acknowledge them — Third World debt is receiving more attention than in the past — or than it probably deserves.

Apart from about 40 000 demonstrators protesting at the IMF's treatment of the Third World — and mounting clashes with the police — there is also a growing feeling among industrial nations that the handful of basket-case economies, mostly in Africa, should be treated as a special case. Their ability to recover is at best limited and their ability to repay debt of \$2bn-\$3bn virtually negligible. It is for these countries that "debt forgiveness" is considered.

The point about Third World debt, as far as the industrial nations are concerned, is that it is proving divisive. Previously industrial nations accepted that the solution would have to be long-term: most debtor nations, especially those with recovery potential,

needed to face the consequences of their profligacy, adjust economic policies accordingly and sort out whatever problems a return to good economic sense might entail.

There have been plenty of special plans to help the Third World, of which the three-year-old Baker Plan was the US contribution. None was adopted, since there was simply no consensus. Now the Japanese have broken ranks with a unilateral aid package aimed not at the very poor but at middle-income nations that could recover given the correct policies and sufficient new capital.

This is an unusual initiative for the Japanese, who tend to avoid a proactive stance in international affairs, and has been greeted with more suspicion than relief by the Americans — who would indirectly benefit from it short-term. The US has misgivings at what it sees as Japan's ultimate intention.

The plan is to provide additional financing through the Export-Import Bank of Japan in untied loans below market rates in unison with IMF facilities already granted to middle-income countries undertaking IMF support adjustment programmes.

No amount has yet been specified, but the 15 heavily indebted nations in this category that stand to benefit together owe \$484bn to foreign creditors. The Americans fear that the Japanese will seek to avoid the domestic adjustments which the Americans judge necessary to swing Japanese growth away from exports and into its own domestic markets.

The IMF interim committee's support for the Japanese plan has been muted. It invited the executive board to "study the modalities" of the proposal saying it welcomed creditors providing "concessional assistance to the poorest of the indebted countries" implementing sensible economic policies under the IMF's aegis. There was no mention in the committee's communique of the middle-income debtors.

But not only the Americans are suspicious of the Japanese. Indications are that as the Japanese increase their quotas to the fund next year, they will be given — and indeed will seek — greater influence in the fund's affairs, possibly ousting the British from the second most influential position.

Both British and American bankers see the Japanese initiative as a means of capturing their traditional customers in the middle-income countries in the longer term. Some of these countries, such as Brazil, are both large and potentially wealthy, provided that they can adjust economically and politically. They remain, despite their indebtedness, good long-term business prospects in the eyes of many international bankers.

There has also been an important change

The developed countries, by avoiding fundamental policy adjustments and relying on a market agreement to keep exchange rates stable, are pursuing contradictory objectives.

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in the nature of the assistance that the IMF is providing. In the past it provided conditional short-term facilities mainly to help countries with balance of payments problems. Now members are urged to allow exchange rates and other co-operative means outside the IMF's aegis to help reduce balance of payments imbalances.

Instead, the weight of the fund's facilities have been switched to medium-term funding to enhance structural adjustments with much less conditionality attached. Simply put, by doing this the IMF is taking on much of the flavour of the world.

Whether SA would be able to make use of these facilities is problematical. If conditionality is reduced, the chances of the Americans referring an SA application to the State



The US federal deficit is at the whim of politicians yet to be elected, who are understandably cautious over specific policies they might take to induce austerity.

Department and risking a debate in Congress might be less. As matters stand the SA delegation is keeping as low a profile as possible, so it is unlikely to press its luck. Experience has shown, of course, that SA

is in no way isolated from what might prove to be rough economic justice if there is a sudden market reaction to rising inflation and panic again over the US deficits.

Inflation should increase the gold price to SA's advantage, but it is likely to be countered by higher interest rates within our trading partners' economies.

Of course, the storm may never come. Both Western policymakers and internationalised capital and money markets are capable of sensible adjustments and their resilience has been demonstrated more than once. But if the worst should happen, SA would be in a better position to withstand the strains if its domestic interest rates were at least positive and determined steps were being taken to stabilise prices generally. ■

'Improved sentiment among bankers'

SA wins more time to settle foreign debt

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SPAC
20/9/88

By Magnus Heystek and
Sven Lunsche

South Africa has received a significant reprieve in its international debt repayments, but a new rescheduling pact will have to be worked out to enable the country to meet its commitments from 1991 onwards.

This was said by leading South African financial officials at the annual conference of the International Monetary Fund (IMF) in Berlin yesterday.

Finance Minister Mr Barend du Plessis announced at a press conference that the repayment period for \$3 billion (R7,4 billion) of foreign loans has been substantially extended by transferring them from within the "standstill net" to longer term loans. He said the move indicated an improvement in sentiment towards South Africa among foreign bankers.

Mr du Plessis also said South Africa would have no problem in meeting its foreign debt obligations under the "second interim arrangement", which expires in mid-1990.

But the Director-General of Finance, Dr Chris Stals, said South Africa would seek a further pact to extend repayment limits on about \$10 billion (R24,9 billion) of foreign debt when the current arrangements expire.

Optimism

Dr Stals, chairman of the debt standstill co-ordinating committee, threatened that a unilateral halt on payments would be imposed if an agreement was not reached, because South Africa could not meet its repayments otherwise.

But he was optimistic that the 34 creditor banks would grant an extension when the pact expired.

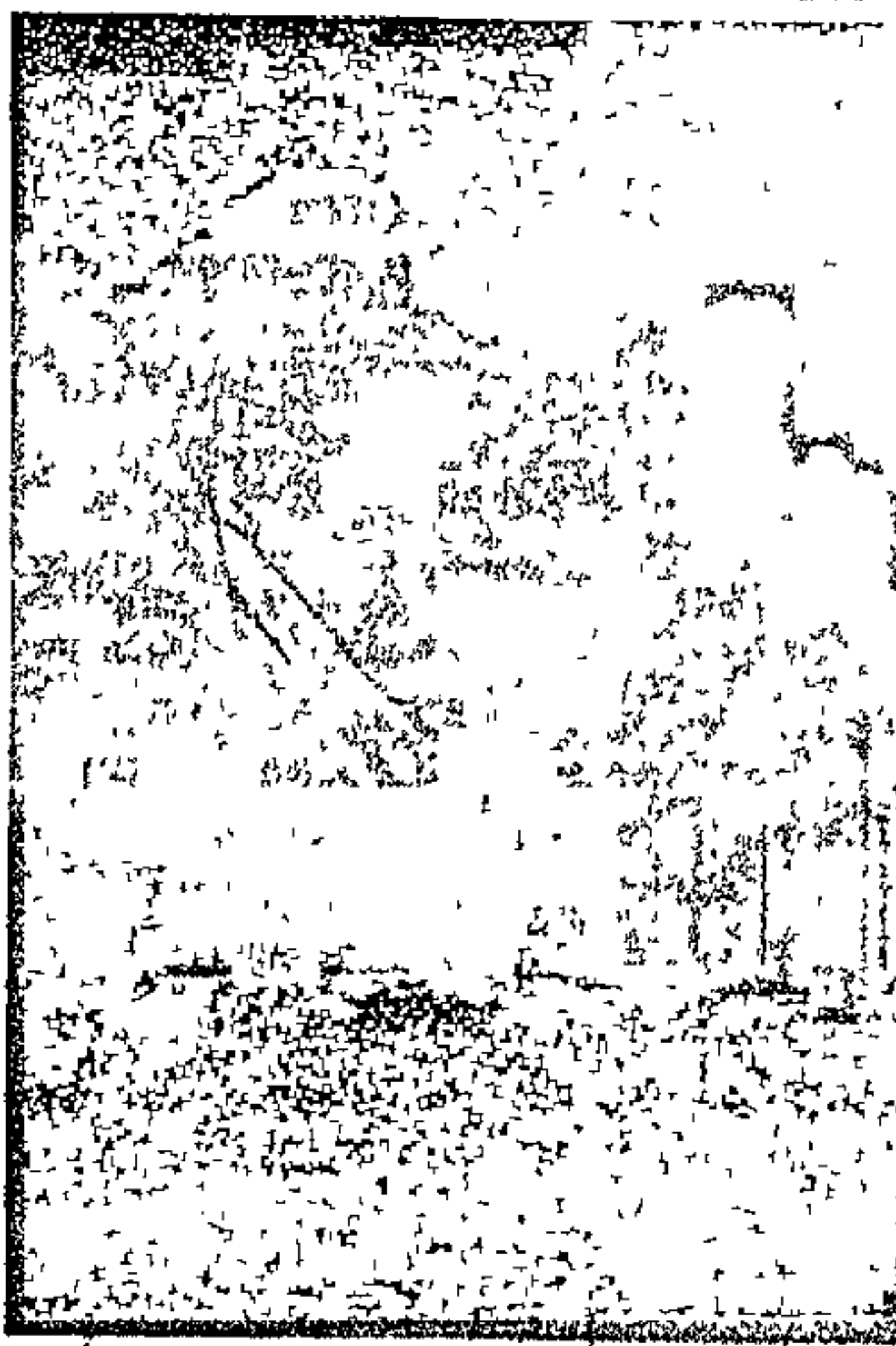
Many economists have recently questioned South Africa's ability to meet its debt commitments, given the shrinking surplus on the current account of the balance of payments.

Frankel Kruger's chief economist, Ms Gillian Raine, said recently that the account was unlikely to exceed R1,2 billion this year, leaving the Government at least R800 million short of the R2 billion necessary to meet the country's capital commitments.

South Africa is to repay a total of R800 million of debt inside the net this year, followed by R600 million next year and R300 million in 1991.

Mr du Plessis said the IMF had criticised South Africa for its low level of real interest rates.

Mr du Plessis said the country would still be cut off from new foreign loans for the foreseeable future.



Lift off ... the space shuttle Discovery rises from the launch pad. Crew members Hilmer (left), Dick Covey, George Nelson.

Discovery crew la

CAPE CANAVERAL — Nearly three years after the Challenger disaster, American astronauts blasted into space yesterday on a crucial mission, aimed at reviving the manned US space programme, and successfully launched a tracking satellite.

The space shuttle Discovery and its five-man crew lifted off from the Kennedy Space Centre yesterday, ending a long string of frustrating launch delays.

Six hours after launch, the astronauts carried out one of their most important objectives — the deployment of a \$100 million (R250 million) tracking satellite.

When ground controllers reported the satellite motor had fired, Captain Frederick H. Scobee, commander, said the best news he'd heard in a long time.

"America is back in space," President Ronald Reagan said from the White House.

The last shuttle, Challenger, ended its mission after lift-off in January 1986 and was launched on its seventh mission.

About 500 000 people gathered in Florida's

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Cars set alight as anti-IMF protests mount

WEST BERLIN. — At least six cars were set alight here in a series of increasingly violent protests against the International Monetary Fund and World Bank, which ended their annual conference yesterday.

Police said one of the vehicles was set on fire in front of the huge International Conference Centre where IMF and World Bank delegates have been meeting amid unprecedented security.

The others were burned at different locations in what police said appeared to be co-ordinated arson attacks.

Since Wednesday afternoon police have detained 262 people during demonstrations. Seventy-four are still in custody.

Critics say the two lending agencies contribute to poverty and damage the environment in the Third World through ill-conceived development aid schemes.

Demonstrators have smashed windows, damaged limousines and lobbed eggs and stones.

The "autonomen" are renowned for wearing black masks and their clashes with police.

Huge security arrangements have been made during the conference, but many West Berliners are questioning whether such a major international event should be staged in the city in future because of the cost and inconvenience.

— Sapa-Reuter



IMF PROTEST. . A young demonstrator wears sunglasses decorated with dollar signs to protest against the International Monetary Fund and World Bank meetings taking place in West Berlin

Picture REUTERS

Du Plessis escapes petrol-bomb

IMF says SA interest rates too low

THE IMF regarded the level of SA's interest rates as too low in real terms, Finance Minister Barend du Plessis said yesterday.

At a media conference for SA journalists, he said the IMF was in favour of positive real rates of interest.

"But remember, the IMF is thinking in terms of the ideal — the textbook situation. And it should be borne in mind that nominal rates, and not real rates, cause cashflow problems. The level of interest rates should be judged in terms of the current domestic economic indicators of a country."

Du Plessis also said he had narrowly escaped a petrol-bomb hurled by angry demonstrators at the car behind his while he was travelling to the conference venue yesterday.

He touched on a wide range of topics,

GRETA STEYN
in West Berlin

from SA's foreign debt situation to the attitude of West German bankers who were under enormous pressure to stop providing trade credits to SA. He also said structural adjustment, and economic priority at the IMF, was urgently needed for SA.

On foreign debt, he said the European banks were relaxed about the situation. He noted that \$3bn of short-term debt inside the net had been converted into longer-term debt outside the net.

While nothing new had emerged on the bonded debt which fell due in 1990/91, he said economic policy in SA would be geared towards building up the

● To Page 2

IMF says SA's interest rates too low

necessary reserves to meet those commitments. Bankers had not appeared worried about the issue and any reference to 1990 at this time was speculation.

West German bankers were under great pressure, not only from the country's churches but also from the US, to stop all business with SA.

"The Americans are pressing the Europeans by threatening to cut business ties and calling on them to make laws against bankers doing business with us."

"But the Europeans tell me that they are withstanding the pressure. The Americans have lost credibility on sanctions and the Europeans perceive them to be acting in self-interest."

He blamed the US for SA's unfortunate position at the IMF.

"We have to effect credit. We are like a business which has to manage its cashflows without an overdraft facility. I found it ironic that (US) Treasury Secretary (James) Brady could piously praise IMF aid for structural adjustment. We have to effect adjustment at great cost

to the country."

Nonetheless, adjustment was an urgent priority SA needed to address the nature of its growth, specifically its dependence on gold.

The country had to lower its propensity to import at times of strong growth.

Better utilisation of SA's labour resources, export promotion, privatisation and deregulation were part of the structural adjustment programme.

Du Plessis noted that most of the important speakers at the joint IMF/World Bank annual meeting had rejected protectionism and called for freer world trade.

"But the more the major countries talk against protectionism, the more they put it into practice. The US recently implemented protectionist measures in its textile industry. The world is paying lip service to free markets while sanctions and protectionism is a reality."

● See Pages 3 and 16

Petrol bomb near SA minister

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WEST BERLIN. — The Minister of Finance, Mr Barend du Plessis, yesterday narrowly escaped a Molotov cocktail (petrol bomb) thrown by demonstrators here.

He is attending the annual conference International Monetary Fund.

Mr Du Plessis was travelling in car which was "some distance" behind another vehicle at which a petrol bomb was thrown.

Mr Du Plessis said the attack had not been aimed at him.

He and other delegates to the conference have effectively been prisoners in their hotels after renewed unrest in the streets of the city.

● Probes on repayment extension — Page 9

● Cars set alight in protests — Page 7

SA's credit rating takes a knock

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By Sven Lunsche

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

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

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

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

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

Of the five African countries

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

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

Sudan gets 'reform for aid' ultimatum from West

star 10/10/86

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KHARTOUM — Crippling debts, war and the slow pace of economic reforms are undermining Sudan's efforts to rebuild its shattered towns and villages nearly two months after floods and torrential rain made millions homeless.

Foreign diplomats and economists said some Western donors were unwilling to lend Sudan large amounts of money without economic reforms demanded by the International Monetary Fund (IMF).

Sudan has foreign debts of \$12 billion (R30 billion).

"There is a tendency in some government circles to get as much funding as possible without having to implement reforms," said one economist.

HELPING POOR

"We have made it clear there will only be a flood recovery programme aimed mainly at assisting the poor."

A Western diplomat said would-be donors were anxious to see their money spent on genuine disaster relief.

"We shall have to draw the fine line between what was actually damaged by the floods and what has been damaged by years of neglect," he said.

"Humanitarian needs must be met," said Mr Bryan Wannop, the Sudan representative of the United Nations Development Fund (UNDP).

The IMF wants Sudan to further devalue its currency, cut government spending and remove subsidies on basic foodstuffs.

But government officials have said the social and political costs of the IMF reforms have dramatically increased since the August floods hit the country, increasing the hardships faced by many of Sudan's 23 million people.

Sudan has been unable fully to service its foreign debt since the early 1980s and is now around \$1 billion (R2.5 billion) in arrears.

A costly civil war in the south, which has been raging since 1983, famine and swarms of desert locusts threatening

crops have all added to the country's misery.

In addition to making about two million homeless, the torrential rains and floods destroyed houses, schools, power stations, roads and agricultural machinery.

A team from the UN Food and Agriculture Organisation (FAO) has already surveyed the damage to Sudan's agriculture, the country's economic backbone. But its findings have still to be released.

A 22-member team from the World Bank, which has pledged \$75 million (R188 million) in flood recovery loans, is expected in Sudan by the middle of October to review the government assessment of the flood damage.

The government devalued the Sudanese pound by 44 percent a year ago. Further talks in Washington on the issue were fruitless.

Economists said future talks with the IMF would be even tougher, following a controversial government decision to double the ceiling set by the Sudanese Central Bank for government borrowing to finance budget deficits.

The increase, from 10 to 20 percent of forecast government spending, was likely to further push up Sudan's inflation rate, already estimated at 50 percent, they said.

NOTHING PAID

They said there was nothing to show the government had paid back money borrowed from the bank in recent years.

Diplomats said Sudan's hopes for large amounts of relief were diminished by floods in Bangladesh and devastation in Jamaica, which was hit by Hurricane Gilbert last month.

"The events in the two countries have certainly eaten into Sudan's share of international sympathy and attention. Consequently there will be less available to Sudan," one diplomat said. — Reuter.

SA groups barred from Dakar talks

A CONFERENCE that was to have been held at the capital of Senegal, Dakar, last week — of mostly "Third World" countries and other African states — was postponed because of the refusal by the host country to allow entry to a delegation of three organisations from Southern Africa.

The affected organisations are the Azanian Coordinating Committee (Azacco); National Council of Trade Unions (Nactu) and the South West African National Union (Swanu).

The conference, scheduled for October 6, will resume on October 14 in Paris, France. The indaba will focus on

By MATSHUBE MFOLOE

the cancellation of the debt to the International Monetary Fund (IMF), and the World Bank — with an added dimension "to pledge solidarity with the downtrodden black masses of occupied Azania."

One of the groups, Azacco, condemned the refusal by the Senegalese government to allow entry to delegates from Southern Africa and viewed the host country's actions as "a contradiction in terms."

"The bonafides of such a refusal are highly suspect

and very questionable in terms of the dialectics of the broader struggle against imperialism and neo-colonialism," Azacco said in a statement.

Azacco reiterated that the imperialist world was trembling once more at the convergence and coming together of forces of change the world over.

"It is a spectre which haunts them, (imperialists), just like in 1848 when Europe was trembling before the rising force and strength of the working class. The reverberations of this trembling have far reaching effects as its sparks were felt within the corridors of the Senegalese government," Azacco said.

9-15-88
W. Head

IMF strategy a good one, says Camdessus

WASHINGTON. — International Monetary Fund director Michel Camdessus said his institution sees the industrial nations' economies growing at 3,5 percent in 1988, above earlier forecasts of three percent.

But in a wide-ranging preview of the IMF/World Bank annual congress which opens on September 22 in West Berlin, Camdessus conceded

that developing nations' growth outlook was "insufficient".

He said among the major issues facing financial authorities are strategies to stabilise exchange rates and to handle the Third World debt problem.

Camdessus acknowledged there was widespread criticism of the IMF and World Bank strategy for dealing with the debt problem but insisted the

IMF's strategy was a good one

He said he understood the adjustment problems of the debtor and creditor nations, but he felt especially for the poor people in Buenos Aires, or Mexico and understood the impatience of those who feared a rise in world poverty.

Critics were confusing "the illness and the medicine", he said. — DPA

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Tactics of dissent

Left to their own devices, Israel's Jews seem unlikely to vote decisively in next Tuesday's general elections, dashing hopes for progress towards a solution to the Palestinian problem. Israeli Arabs, however, could tip the balance towards Shimon Peres's Labour Party if they heed the unprecedented intervention of King Hussein of Jordan and the weekend flurry of diplomatic activity involving Egypt, the Palestine Liberation Organisation (PLO) and Iraq.

The outlook is finely balanced. Last week's suicide car bomb attack by a Shia extremist in southern Lebanon which killed seven Israeli soldiers, gave an edge to Premier Yitzhak Shamir's Likud bloc, amplifying its contentions about the fruitlessness of talking to forces whose imperative is the destruction of the Jewish State.

The incident appeared to point to an election outcome in line with that indicated by an opinion poll by the newspaper *Hadashot*. With 20 000 votes needed for any of the 27 contesting parties to gain one of the Knes-

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set's 120 seats, *Hadashot's* poll gave the scoreline as

□ Likud coalition 56 — Shamir's party gets 38 with the balance from six far-Right or ultra-orthodox groups, such as *Moledet* (Homeland), which seek solutions such as a "transfer" of all Arabs out of an Israel whose borders are drawn on Biblical lines,

□ Labour coalition 56 — 44 for Labour and the rest provided by pro-peace parties such as the Citizens' Rights Movement, the Centre Party, Mapam (socialist) and a new moderate religious party, Meimad, and

□ Non-Zionists eight — *Hadash* (communists) three, Progressive List for Peace three, and two to the Arab Democrats, another new group formed by an ex-Labour member in protest at the way Labour Defence Minister Yitzhak Rabin has handled the Palestinian uprising in the occupied territories

Between 320 000-340 000 of Israel's Arab citizens are entitled to the vote — worth 16 or 17 seats if they were all cast one way. Traditionally, they have voted for the non-Zionist parties which have always been excluded from government coalition as too far Left. And this time there were concerns that the Arab turnout would be low, with voters boycotting the election because of the *intifada* in the West Bank and Gaza Strip, which is in its 11th month, with a death toll rising to more than 280.

But the effect of events on the eve of polling could change the convention in which

Arab voters have seen the differences between Likud and Labour as that of Tweedledee and Tweedledum. Taking a calculated gamble, Labour helped to engineer an interview with Hussein with the US television network ABC, extracts of which were re-broadcast in Israel.

While it may have backfired among some Jewish voters, the effect of Hussein's praise for Peres and his peace efforts and the statement that a Likud-led government would be "utterly disastrous" for Israel and the whole Middle East could stir the Arab electorate

That was followed at the weekend by two mini-summits in the Red Sea port of Aqaba organised by Egyptian President Hosni Mubarak. They involved PLO leader Yasser Arafat meeting Hussein, the first since Jordan "abdicated" from any active role in the West Bank in July. Whether or not it finally marked the end of the estrangement between the two leaders remains to be seen but Hussein said the talks gave him "full satisfaction" and in future Jordan and the PLO would co-ordinate their efforts in the Middle East peace process

The other three-way meeting — between Egypt, Iraq's President Saddam Hussein and



Peres

Arafat — cemented the move towards aligning the PLO within a moderate Arab bloc, broadly acceptable to the West. Syria is still missing

The meetings increased expectations that the PLO is on the brink of formally making the decision to recognise the State of Israel while at the same time forming a government-in-exile of an independent Palestinian state based on the West Bank and Gaza. As the *FM* went to press the rumour was that the PLO's National Council would meet the day before Israel goes to the polls

Afterwards, Osama al-Baz, political adviser to Mubarak, made plain the implications for Israel's elections. "It demonstrates that we are flexible and serious about finding ways towards peace. We want the Israeli voter, whether Arab or Jew, to understand where his specific interest lies. Let him know that when he casts his vote there is an Arab partner ready for negotiations."

An announcement from the PLO could be crucial to swinging Israeli Arab votes behind Labour

Financial crunch looms as SA faces \$12-bn debt repayment

South Africa will soon be back on the financial rack for the first time since it suspended repayments of its short-term debts in September 1985. This year and next it will have to pay its foreign creditors \$3 billion to \$3.5 billion in interest and principal.

That is mild compared with what follows in 1990-91. South Africa is due to repay almost \$12 billion, equivalent to roughly half of export earnings. The director general at the Department of Finance, Mr Chris Stals, admits this cannot be done.

The problem is that SA has two incompatible needs. To service its foreign debts it needs to run a current-account surplus. At the same time, its real GNP needs to grow by five per cent a year to create enough jobs for a population that is growing at three per cent a year. But, at its current level of domestic savings, it cannot manage much more than three per cent growth a year without triggering an import boom.

South Africa is now stamping hard on the economic brakes after imports increased by 20 per cent in the first quarter of 1988, compared with 1987's fourth quarter.

This year it is forecast to run a current-account surplus of only R2 billion, a third of last year's R6 billion. A gold price as low as \$420 has not helped Gold accounts for 40 per cent of its exports.

South Africa's problems are compounded by its friendliness. Since 1986 there has been a \$5 billion net outflow of capital as foreign banks and corporations, under pressure from anti-apartheid groups at home, have pulled out.

There are few places that it can turn to for financial help. Its last loan from the IMF raised a storm, both the IMF and the World Bank have a strong and steady majority on their boards against loans to South Africa. Western

credit agencies shun it and few foreign banks are willing to lend new money. Its only financial friends in the West are Switzerland and West Germany.

Swiss banks have been behind most of the gold loans South Africa has arranged this year. Gold loans enable it to use its gold reserves (worth less than \$1.2 billion) to produce scarce foreign exchange; the gold is used as collateral for foreign borrowing that boosts hard-currency reserves. So far this year the Government has raised \$600 million this way.

Useful as gold loans are, they will not enable South Africa to meet the \$12 billion of debt repayments due in 1990 and 1991 — mostly money owed by SA banks to 400 or so foreign commercial ones. The rest — about \$18 billion — is due to holders of bonds.

The bunching of repayments was caused by 1985's debt standstill arrangement, designed to stretch out the repayments of short-term debts.

In 1985 the Government thought it would not be able to renew \$6 billion of short-term debt that was falling due. So it stopped repayments before agreeing eventually (in March 1987) to a longer-term repayment schedule for these and other government and private-sector bank debts. Under the agreement, \$14 billion of the \$24 billion foreign debt was mostly frozen (ie, only interest would be paid) until 1990.

The rest of the debt — including \$1 billion due to the IMF — was to be repaid on schedule.

It is that frozen lump that is again causing worries. The Government has tried to thaw it out by cleverly exploiting foreign banks' distaste for South Africa as well as their greed. At the beginning of the year it offered bank creditors the option of exchanging their foreign-currency loans into a different sort of rand in its two-tier currency system.

In the standstill arrangement the

loans were valued in commercial rands. The South African authorities offered to switch them into financial rands. This rand can be held only by foreigners and is used for investing in South Africa. It trades at a varying discount to the commercial rand. In March this year the discount was 20 per cent, now it is closer to 40 per cent, following the worsening of SA's current-account balance.

Although switching rands cuts the loans' value, it makes them more sellable. Perhaps as much as \$200 million of South African debt has been consumed in this way. The buyers of the banks' financial rand are international investors who want to buy South African assets — usually gold shares. The advantage of this sort of deal is for the Government is that it reduces its foreign debt and converts it from a hard-currency liability to a domestic asset.

Another scheme, this time swapping frozen loans into new debt, has proved more popular. It appeals to banks yearning for secure, high-yielding assets. Bankers estimate that \$3 billion of the debt thawing in 1990 and 1991 has been swapped for ten-year debt.

This debt will be repaid in ten six-monthly repayments starting in 1993. By converting their loans into this debt, banks can improve their returns. The frozen money pays banks 0.88 per cent over their cost of funds. Depending on the borrower, the new stretching out loans will pay banks 1.62 to 1.88 percent over Libor (London Inter-bank borrowing rate). In addition banks get a fee of 0.38 percent.

Several bankers believe that far from delaying the eventual repayment of their loans, such a swap will in fact speed it up since they will have their money back by the end of 1998. US banks, which are SA's second-largest set of creditors after the British, have been especially eager to swap their debts for the ten year paper.

They reckon such a swap will at least fend off a nasty confrontation with anti-apartheid shareholders over a rescheduling. It may even save them money. US banks worry that their authorities may not allow them to take part in a rescheduling.

If they do not reschedule, South Africa might simply not pay them at all.

Some banks are so confident that these ten-year loans will get repaid on schedule that they are prepared to swap Latin American debt for South African paper. One British bank, which has lent too much to Argentina and not much to South Africa, has been buying South African debt for a mixture of Argentine debt and cash.

However, this debt shuffling will deal with, at best, only half of the debt lump falling due in 1990-91. Several banks remain optimistic that SA will manage a rescheduling to handle the rest. They say that the South Africans have become better negotiators than they were in 1985. On this reasoning, Mr Stals's claim that SA cannot pay may merely be a good opening gambit. Yet, without big South African concessions, US banks in particular will find it politically impossible to agree to rescheduling. That really means that rumours of the imminent release of Mr Nelson Mandela need to turn out to be true. Otherwise the anti-apartheid lobby is likely to prove too strong.

Even if South Africa does manage to put off the days of reckoning in 1990-91, it will soon run into political problems caused by its slow growth. Its debt burden is not yet particularly heavy: this year little more than 10 per cent of its export revenues will go to service its debts. The basic problem is that without fresh foreign capital, South Africa has little chance of quickening its economic growth. It is unlikely to get much of that needed capital until it changes its political system — The Economist

Debt crisis is crippling Africa

By CONNIE MOLISI

THE swelling debt of Third World nations has begun to frighten some sectors of the international capital community

Recently a conference of concerned people met in Paris to canvas support for the World Bank and the International Monetary Fund to cancel the debt

The cost of the debt has a horrendous effect on the economic development of Third World countries. In Latin America, between 1980 and 1985, per capita income fell by nine percent

As unemployment rose and governments cut back social spending, the incomes of the poor suffered disproportionately. In Mexico, for example, the purchasing power of the minimum wage dropped by 30 percent between 1981 and 1985

The debt situation in Africa is worse than it was in 1986, despite policy reforms and restructuring measures by most African governments. Per capita income has fallen by 4.2 percent in the last two years. The debt burden has grown heavier and is projected to rise still further, and imports crucial to economic growth, have declined

The reason is a heavy dependence on the export of primary commodities – about 90 percent of all exports for Sub-Saharan Africa

Real African exchange rates – higher than those of any other developing region in the early 1980s – are now the lowest in the world, having fallen by an average of 55 percent in the last three years. The lower a country's exchange rates fall, the greater is the drop in its purchasing power

Most African countries have cut their budgetary deficits by nearly a third since the adoption of the recovery programme in 1986. This was done partly through reductions

Sharing the huge burden looks like the only way out

in government employment and expenditure on social services

The result has not only been increased infant and child mortality rates but also severe personal hardship for hundreds of millions of people. Unemployment has grown, clinics are running short of essential drugs, factories are idle through lack of foreign exchange to import parts and there is more hunger as food subsidies are lifted

One reason the recovery programme did not usher in growth was the collapse in commodity prices

The loss of about \$19-billion in export income in 1986 – almost a third of its \$64-billion income the previous year – dealt a devastating blow to development and investment plans

The debt crisis in Africa has swept away the hopes of political freedom and economic prosperity following independence. The greater part of the masses lack confidence, or even hope that they will ever be able to eat from one day to the next

Agricultural production decreases from day to day and basic economic infrastructures are not kept up

It is clear that, because of Africa's dependency, we are unable to change the course of our development, even when it is clear the path we are on is leading us nowhere. The World Bank estimated that to achieve the five percent growth in gross national product recommended by the United Nations as the minimum essential for

developing countries, these countries must aim at expansion of exports at an annual rate of seven percent

Anything less would amount to stagnation, taking into account the rapid population growth in these countries. Some African economists, though, have convincingly shown that to achieve a growth rate of five percent, export growth must rise by at least 18 percent annually

The problem is that there is limited scope for expansion of demand for tea, coffee, cashews and other products – the populations which consume these in the Western World grows at less than two percent annually

How many more cups of tea can a British worker consume beyond what he is already consuming, however, prosperous Britain becomes?

No British importer would import an additional seven percent of Africa's tea when the demand at home is rising by less than two percent

African economies tend to import the developed world's inflation. When countries are plunged into periodic monetary crises, there is a tendency for the prices of primary commodities to rise as long as these crises last

This is because such crises are generally accompanied by a worldwide stampede to buy tangible commodities such as gold, silver, copper, cotton, and so on. Merchants prefer to stockpile those

commodities rather than hold liquid cash, whatever the currency – since cash at such times always faces a threat of instant devaluation

When these developments occur, there is invariably a superficial appearance of boom in the developing countries which supply primary commodities. But such booms are as deceptive as they are short-lived

They are deceptive because what is gained by increased export prices is lost through the increased import prices of industrial goods

The industrialised countries would not lower the prices of their exports, even if the inflation which sparked the increased prices in the first place, abates. So in the end it is the developing countries that bear the brunt of the industrialised world's inflation

This seemingly insoluble problem is the result of Africa's dependence on production of primary commodities, principally for export.

Developing countries should encourage industries which would make them genuinely self-reliant. These countries need to process more of their commodities instead of relying on the export of primary products

The enormous wealth produced from the work of the African masses is today principally oriented towards the servicing of their nation's debt

According to International Monetary Fund estimates, the debt makes up 44 percent of African GNP. It is estimated that the debt is greater than the per capita income of Africa's population

Given this situation, it seems clear that the debt crisis is a vicious circle in which the developing nations are trapped. For as long as the greater slice of profit is used in servicing the debt, nothing will remain for the industrial development of the developing nations. Therefore the burden of this crisis should be a shared responsibility

Debtor nations told to toe line

LONDON — International financial bodies should not help debtor nations finance their debts without demanding economic reforms in return, says British Chancellor of the Exchequer Mr Nigel Lawson.

He was speaking at a conference in London yesterday devoted to reviewing progress on the world debt crisis.

Responding to a question, Mr Lawson said the Washington-based International Monetary Fund (IMF) and World Bank had a very clear role in insisting as a condition of financing that countries pursue economic policies which turned their economies around.

He added "It is essential that this hard conditionality remain."

Inadequate economic adjustment programmes helped neither debtors nor creditors, he said.

Mr Lawson reaffirmed his belief in tackling the debt problem on a case-by-case basis.

"The search for global solutions distracts attention from the tasks which do matter: managing the debt that remains and helping the debtor countries to restructure their economies in a way that will improve their performance in the future," he said.

While the resolution of the debt problem was neither quick nor easy, he said, cautious optimism over the debt crisis was justified, provided all countries involved played their parts.

Britain was ready to contribute \$100 million in exceptional assistance to Nigeria's debt financing package, provided other donors made adequate contributions, he said.

The world economy was in better shape and an important range of new debt reduction measures was now in place, he said.

Under a debt plan for sub-Saharan Africa launched by Mr Lawson last year, more aid loans had been written off, longer repayment and grace periods were allowed and other official loans were being re-scheduled.

Alternative approaches

Creditor nations had agreed to three alternative approaches to reducing interest payment burdens.

Mali and Madagascar had accepted such terms as part of their debt rescheduling exercises.

Other borrowers, including some Commonwealth members, were likely to follow.

Mr Lawson said industrialised countries could help debtor nations by keeping the world economy steadily moving ahead and ensuring their markets were open to exports from developing countries.

He encouraged more private investment in developing countries to help them with economic adjustment.

Sapa-Reuter

THE Reserve Bank has a severe problem in common with central banks of lesser developed countries (LDCs) — it has incurred massive losses on its forward cover book

The IMF mentions SA in the same breath as Costa Rica and the Philippines in a recent article on forward markets in LDC's

The article, in the IMF's "Finance and Development", provides comparative figures for forward cover losses by central banks in the early 1980s. The Reserve Bank's losses between 1981 and 1985 were 10% of GDP — the same as Costa Rica's figure for 1981 to 1983 and worse than the Philippines' performance in 1983 to 1985 and Israel in 1984 to 1985

The IMF does not provide later data. But even though SA's figure has declined substantially as a percentage of GDP, the Reserve Bank is not comfortable with the level of losses. For the current fiscal year, it could reach as much as R5bn. Consequently, the Bank recently announced its intention to withdraw from the market "in an orderly way"

Providing forward cover in an LDC is a no-win situation. The Bank's losses are no fault of its own, it is a feature of a domestic currency

Shed risk quickly, says IMF

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GRETA STEYN (156)

which seems to have only a downside

The problem arises when most importers take cover and exporters do not, resulting in an imbalanced book. Exporters do not generally want exchange rate guarantees when they expect the currency to depreciate. Importers obviously take cover for the same reason.

"Consequently, official losses arising from exchange rate guarantees extended to importers during a period when the domestic currency is depreciating will normally not be offset by corresponding gains from guarantees extended to exporters," the IMF's article says.

"In some countries these losses have been

absorbed by budgets and subsequently financed by monetary expansion, producing inflation and weakening the balance of payments."

Reserve Bank Governor Gerhard de Kock mentioned monetary expansion as a reason why the Bank wanted to withdraw from the market. Another issue raised by the IMF is that of artificially low interest rates, which creates problems in a "quasi-market" such as SA's.

The IMF says if domestic interest rates have been kept artificially low in a "quasi-market", losses will ultimately arise because the restoration of financial equilibrium will require large exchange rate adjustments. These adjustments will be larger than those indicated by interest differentials.

The differential between domestic and foreign interest rates represents the cost of forward cover. That is the case in a free market, and in a "quasi-market" such as exists in SA.

The article also warns that a basic difficulty exists with the "quasi-market" in the form of controls and taxes or subsidies. A subsidy exists when importers get cheaper forward cover to encourage the use of foreign trade credit, as was introduced in SA recently.

It is nonetheless a better scheme than providing forward cover at arbitrarily set premiums. The existence of "moderate" controls does not preclude the formation of a forward foreign exchange market so long as there is balance between supply and demand.

But the IMF says the evolution of markets points to the need for progress towards realism of spot exchange rate and interest rate policies to permit development of a forward market.

Most economists say SA's interest rates were kept artificially low before the municipal election this year; some say rates are still too low.

"While the degree of central bank involvement has varied from country to country, the experience with losses indicates that the central bank should shed exchange rate risk as quickly as possible," the IMF concludes.

Dear Sir

INTERNATIONAL MONETARY FUND

1989

UK offer to
write off loan
to Zambia (156)

LUSAKA — Britain has offered to write off its development loans to Zambia if the International Monetary Fund (IMF) accepts the country's go-it-alone economic recovery programme, a newspaper reported yesterday.

Zambia jettisoned an IMF recovery plan in May 1986 after the fund's recommended food price rises sparked riots.

The Times of Zambia quoted a British High Commission spokesman as saying the offer included the resumption of balance of payment support.

After the rift with the IMF, Zambia's donors withheld R460 million of balance of payment support pending agreement with the fund.

Zambia is moving closer to IMF demands, including devaluation of the kwacha. 3/1/89.

Africa deeper in debt

star 3/1/89

ADDIS ABABA — The executive secretary of the United Nations' Economic Commission for Africa said yesterday almost all African nations were falling farther behind the world's developed countries

Adebayo Adedeji, who also is a UN under secretary-general, called for fundamental changes in so-called structural adjustment programmes ordered by major lending institutions such as the World Bank and the International Monetary Fund

Structural adjustment programmes usually require significant economic belt-tightening by nations receiving World Bank or IMF aid and poor, debt-ridden nations frequently complain that the measures often lead to hardship and civic unrest

Adebayo, delivering a year-end assessment to an audience of diplomats and economists at the commission's headquarters in Ethiopia's capital, said Africa's economy did not keep pace

with its population growth in 1988

He predicted an even more dismal decline in 1989

Adebayo said Africa's combined economy grew at a rate of 2.5 percent in 1988, compared with 1.3 percent in 1987. However, he said, that was offset by population growth of about 3 percent

A decade-long pattern of slow economic growth coupled with rapid population increases has left the average African with an income only about 80 percent of what it was in 1980, Adebayo said

He noted that demand for African exports remains weak and said the continent's economy "has been sapped and weakened by the burden of debt in spite of the perceptible recovery of the industrial economies"

He put the combined debt of African nations at \$230 billion at the close of 1988, compared with \$218 billion in 1987 — Sapa-AP

Kaunda talks to IMF on recovery

By Dan 3/11/89
LUSAKA — Zambian President Kenneth Kaunda had met IMF officials studying his nation's economic recovery programme, officials said on Saturday.

They said Kaunda held a first round of talks with a delegation headed by Sen Gupta, special advisor to the IMF, on Friday.

Gupta expressed the hope the IMF would soon resume its assistance to the heavily indebted southern African nation during the talks.

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In May last year, Kaunda severed ties with the IMF, abandoning its recovery plan involving severe currency devaluation, cuts in state spending and an end to subsidies on basic commodities.

Kaunda introduced a softer economic salvage programme, but in the last six months he has axed some food subsidies and price controls, apparently preparing the way for a rapprochement with the IMF — AP-DJ

Toothpaste (and the IMF) hit Tanzania

The Star's
Africa News Service

ARUSHA — Two years ago a visitor to Tanzania who forgot to pack his toothpaste had to clean his teeth with soap, for neither toothpaste nor many other basic commodities were available in the shops.

Now toothpaste and many other consumer goods are back in the shops, thanks to major changes in the government's socialist economic policies — and a little help from the International Monetary Fund.

Basket-case

The near collapse of the economy between 1978 and 1985 made Tanzania one of the world's basket-cases, heavily dependent on foreign aid. It was a poor country even by African standards.

But when delegates came to Arusha recently for the conference of the Preferential Trade Area for Eastern and Southern Africa (commonly known as the PTA), many deserted the conference halls to go on shopping sprees for goods unobtainable in their own countries.

All over Tanzania shops are displaying not only locally made goods but imported items too, largely as a result of liberalisation measures under which people are allowed to import goods if they have foreign exchange

without having to explain how they got it.

Prices of the imported goods are high and generally beyond the reach of the average Tanzanian. A pair of men's shoes, for instance, costs 3 980 Tanzanian shillings (about R70), which is roughly equivalent to the monthly salary of a middle management employee in a parastatal organisation in Tanzania.

Most Tanzanians, however, prefer this situation to the old days of shortages and rationing because at least there is something to buy with their earnings and they have an incentive to work harder.

This attitude is said to have contributed to an increase in agricultural production and to improvements in other sectors of the economy. Last year, the gross domestic product (GDP) grew by 3.9 percent. This was the second year in a row that the GDP had increased faster than the population growth of 3.3 percent.

The highest growth rates have been recorded in agriculture (4.4 percent), manufacturing (4.2 percent), and economic services, especially transport (4.5 percent) and water supplies (7.5 percent).

Agricultural production has increased so much in the past two years that the storage facilities could not house two bumper harvests. For the first time in

many years, Tanzania had a surplus of maize in 1987 and took steps to export it.

However, exports of only two of the cash crops — tea and tobacco — were able to show increases. This factor, coupled with falling commodity prices on foreign markets, worsened the balance of payments position.

To boost foreign exchange earnings, the government has been encouraging businessmen to develop non-traditional exports by promising them half of any foreign exchange they earn from such products.

As a result, earnings from non-traditional exports are expected to increase by R374 million or 83 percent in 1987/88 against the previous year.

Overall, Tanzania's exports increased by 12 percent to R813 million in 1986/87 and are officially expected to rise by a further 9 percent in 1987/88.

Tanzania's economic recovery is largely attributed to an IMF-sponsored reform programme started in 1986 with the objective of increasing foreign exchange earnings and rehabilitating essential economic and social infrastructures.

The IMF programme is based on a minimum of R2 700 million being available annually for imported goods and services considered necessary to maintain the economic programme.

No deadlock in IMF-Siemens talks

HELOISE HENNING

NEGOTIATIONS with the International Metalworkers Federation (IMF) over the 14-point principle agreement on the activities of German subsidiaries in SA had not ended in deadlock, Siemens joint-MD Johan Trotskie said yesterday.

On Monday Business Day quoted a German embassy official as saying the talks were deadlocked on the question of picketing.

Trotskie said Siemens had held talks with its shop stewards in December. Problems linked to picketing and arbitration had been cleared up and shop stewards had accepted a document from Siemens for discussions.

Investment

Trotskie said the agreement he signed called for the "renouncement of the exploitation of advantages provided by the apartheid laws, in particular in relation to the homelands".

✧ This did not preclude new homeland investment.

□ ALAN FINE reports IMF local secretary Brian Frederiks said deadlock had not been reached with Siemens.

He said the IMF unions saw the homelands as part of SA and there was no obstacle to investment there. However, if a move to invest in a homeland would be detrimental to workers, the plan would be opposed.

African nations gather for talks on economic dilemma

8/10/77 11/3/87
BLANTYRE — Finance experts from 51 African nations began discussions on economic reform and debt management yesterday in preparation for the Economic Commission for Africa's third meeting of finance ministers next week.

Top of the agenda at the talks is a critical appraisal of the economic adjustment programmes sponsored by the IMF and the World Bank in more than 30 African countries.

Delegates will be discussing alternative strategies and solutions to Africa's economic crisis in the light of what many countries see as the unacceptable social and political impact of tough economic measures recommended by the IMF and World Bank.

The conference was opened yesterday

by Malawi's Minister of Trade, Industry and Tourism Robson Chirwa.

Chirwa said that in many African countries adjustment had increased taxes, led to a decline in real wages and a rise in unemployment.

The conference is being organised by the Economic Commission for Africa, a UN think-tank on development set up in 1958 to promote regional co-operation.

Conference director Bingu Mutharika of the commission said investigation conducted by the commission over the last year had shown orthodox structural adjustment had aggravated rather than resolved Africa's economic crisis — Reuter

Africa debates alternative to IMF and World Bank reforms

Star 8/3/89 156

By Rory Channing
BLANTYRE — International Monetary Fund and World Bank reforms have failed to cure Africa's economic ills, said the executive secretary of the UN Economic Commission For Africa (ECA), calling for a radical African policy shift in the 1990s

Adebayo Adedeji warned that the continent faced possible irreversible economic decay unless it dramatically shifts course

Adedeji, addressing a meeting of African finance ministers and monetary officials, said reforms such as those prescribed by the IMF and the World Bank had proved inadequate.

He outlined a framework for a so-called "African Alternative" which, he said, attempted to lay new foundations for major re-orientations of policy in the 1990s.

LONG TERM

Broadly, it entailed a long-term process of diversification, reducing Africa's dependence on exports of primary agricultural and mineral commodities, accompanied by measures to protect the poor and vulnerable against changes

"It is our view that the basic norm of adjustment is that of national and collective self-reliance with the concomitant reduction in external dependence," he said

He said that during the period 1980-88, some 33 African countries had adopted IMF-sponsored reforms and 15 had implemented World Bank-sponsored programmes

But despite the sacrifices involved, social and economic conditions in most African countries had continued to deteriorate, he added

"This lack of positive and sustained results is becoming impossible to ignore," he declared

DICHOTOMY

As a result the ECA, aided by the UN Development Programme, had carried out in-depth studies of 25 African countries that had adopted such reforms

It had found a dichotomy between the long-term development objectives endorsed by African countries in several policy statements, and IMF and World Bank-type adjustment programmes geared mainly to short term balancing of domestic and external finances.

"The human dimension is almost totally ignored," he declared

ECA findings, reinforced by those of agencies like the UN Children's Fund (UNICEF), showed most of the poor had suffered from the reforms

They entailed significant cuts in public spending on social services such as education, health, water and housing — the areas in which transformation of economies and sustainable development should focus, he said

Politically, the study showed an increasing erosion of the sovereignty of African countries in the design and implementation of such reforms

He referred specifically to "one-sidedness" in negotiations and the

overwhelming role of international institutions in dictating conditions for aid

Moreover, Africans had agreed to follow such programmes on the understanding they would be sustained by adequate foreign financing

In most cases this had not materialised. Even where pledges of assis-

tance had seemed firm, disbursements had either been substantially delayed or become subject to increasingly tougher conditions

Adedeji portrayed the proposed African Alternative as part of an extended process — "a process for finding the ways and means of reversing the deterioration in the

African economies which has been going on now for more than a decade and installing in its place self-sustained and sustainable development

"Unless this is done between now and the beginning of the 1990s, the economic tragedy which is now the lot of Africa may become irreversible" —
Reuter

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Bankers welcome US plan to cut Third World debt

NEW YORK — The US Treasury's plan to spur Third World debt reduction was a welcome initiative but its success would depend on details not yet apparent, bankers said

In a key policy shift, the US proposed on Friday that World Bank and IMF resources be used to reduce debt and guarantee debtor interest payments

A banker said "There is a danger that people will look at this and assume the debt crisis is solved. The success or failure will depend on the details

"It's a major change because it focuses on debt relief and debt reduction which previously were a no-no"

But others said the proposals, outlined in a speech by Treasury Secretary Nicholas Brady, raised many questions

While welcoming the acknowledgment that major industrial nations and multilateral agencies needed to be involved to tackle the debt crisis, they said this could raise thorny issues

In particular, they expected Japan — in return for providing increased financing — would demand a bigger say in the operations of the IMF and World Bank at the

expense of the US

A banker said "The Japanese monies could be conditional on the US relinquishing some of its authority at the IMF and World Bank"

Japanese officials said Japan's Export-Import Bank would increase loans made in parallel with the IMF to debtor countries which took advantage of the new strategy

US officials said new IMF and World Bank support would go to countries undertaking debt-reduction programmes that included IMF-approved structural reforms

Brady said "Both institutions could offer new financial support to collateralise a portion of interest payments for debt or debt-service reduction transactions"

But bankers said to do that, capital increases would be needed for both bodies
□ AP-DJ reports from Boston that the Boston Sunday Globe reported that US Secretary of State James Baker may have violated a Justice Department conflict of interest ruling while he was Treasury Secretary in 1987

It said Baker rejected a proposal to force US commercial banks to forgive a large part of Brazil's debt while he owned stock in one of the banks — Sapa-Reuter

FINANCE

ECONOMIC REFORMS AND SUB-SAHARAN AFRICA

Indicator	Period	ALL COUNTRIES		COUNTRIES NOT AFFECTED BY STRONG SHOCKS	
		With strong reform programmes	With Weak or no reform programmes	With strong reform programmes	With weak or no reform programmes
Growth of GDP (constant 1980 prices)	1980-84	1.4	1.5	1.2	0.7
	1985-87	2.8	2.7	3.8	1.5
Agricultural production	1980-84	1.1	1.3	1.4	1.8
	1985-87	2.6	1.5	3.4	2.6
Growth of export volume	1980-84	-1.3	-3.1	-0.7	-5.7
	1985-87	4.2	0.2	4.9	-3.3
Growth of import volume excluding oil exports	1980-84	1.7	-2.7	6.1	-4.0
	1985-87	4.8			
Growth of real domestic investment	1980-84	-8.1	-3.7	-3.5	-7.0
	1985-87	-0.9	-7.0	1.9	-4.8
Gross domestic savings (percentage of GDP)	1980-84	9.9	2.3	7.8	0.9
	1985-87	10.7	6.0	10.7	5.6
Growth of per capita consumption (real)	1980-84	-2.3	-1.1	-2.4	-1.5
	1985-87	-0.4	-0.5	0.7	-0.9

Countries with strong reform programmes: Burundi*, Central African Republic, People's Republic of Congo*, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi*, Mauritania, Mauritius, Niger*, Nigeria*, Senegal, Tanzania, Togo, and Zaire.
 Countries with weak or no reform programmes: Benin, Bourkina Faso*, Equatorial Guinea, Ethiopia*, Liberia, Mali, Sierra Leone, Somalia, Sudan*, Zambia and Zimbabwe*.
 *Countries affected by an external shock.

Source: World Bank/UNDP

Africa shows bankers a 'less dismal picture'

SUB-SAHARAN Africa had an image of "unrelenting decline", but the statistics commonly reported "mask a more complex, less dismal picture", said a study of the region published this week by the World Bank (WB) and UN Development Programme.

African countries adopting the structural adjustment measures advocated by WB and the International Monetary Fund (IMF) could point to better economic performances than other countries on the continent, argued the appraisal.

More than half the 45 countries of sub-Saharan Africa had initiated policy reforms since 1983. Results "suggested a strategy of adjustment with growth is viable".

The report focused on the period 1985-87, making some tentative assessments for 1988, and assessed domestic growth, developments in trade and commodity prices, aid flows and debt relief measures, and domestic policy reforms.

Hopeful

Before comparing records of countries which undertook adjustment policies with those that had not, the report examined sub-Saharan Africa's overall economic performance. GDP had grown at an average annual rate of 2.3% since 1984 — less than the region's 3% population growth, but reversing the annual 1.1% rate of decline since 1980.

The report pointed to hopeful developments in agriculture — the dominant sector — which averaged 4% growth between 1985 and 1988. Other developments were less encouraging: the domestic savings rate in the region was only half the rate for other developing countries and gross domestic investment declined in real terms by about 3.5% a year in 1986 and 1987. Import purchases fell almost 40% during 1981-85 and had only risen 3% since. Sub-Saharan Africa's current account deficit rose from \$5.3bn in 1985 to \$10.3bn in 1987.

But excluding oil exports, "sub-Saharan Africa's most recent export

MICHAEL HOLMAN of the Financial Times reports that structural adjustment measures in Africa appear to be bearing fruit.

performance is encouraging, with increasing volume beginning in 1985 and increasing earnings beginning in 1986. A decline in the region's share of world trade for major exports, excluding oil, began to reverse in 1984 (accounting for 15% of total export earnings) rose more than 4% a year in 1985-6, after falling at an annual rate of nearly 2% from 1970-85.

Consequences of the region's poor export crop performance were starkly set out: "If African countries had simply maintained their 1970 market share of non-oil primary exports from developing countries, export earnings would have been \$9-\$10bn a year higher in 1986-7", said the report. The shortfall was about as great as total debt payments, or donor aid.

Turning to terms of trade, the report calculated that when oil was excluded, purchasing power of exports since 1985 did not decline.

On capital flows and debt, the report found total net financial flows to sub-Saharan Africa "increased significantly in 1986 and 1987, rising \$3-\$4bn over the 1985 level to more than \$13bn in 1987". Total net flow in real terms for 1987 remained about 15% below the 1980-83 average.

The external debt burden continued to constrain growth. Sub-Saharan Africa's outstanding and disbursed debt increased from about \$6bn in 1970 to \$129bn in 1987 — equal to 100% of its GNP and more than 350% of total exports. Debt service obligations amounted to 45% of sub-Saharan Africa's export revenues in 1986 (for International Development Association recipients the ratio was 47%), but in 1987 the ratio fell to 36% for sub-Saharan Africa, but rose to 49% of IDA countries.

The region's share of official development assistance (ODA) rose from

23% in 1980 to almost 30% in 1987. But real growth of net ODA was lower in 1987 than in 1986 and 1985.

Drawing general conclusions about benefits derived from adjustment policies was difficult, but "evidence suggests reforms and economic adjustment generally led to better economic performance in the region".

Countries implementing the new policies enjoy one clear advantage: "Multilateral and bilateral donors have gradually but significantly shifted aid flows to give greater support to countries with strong, sustained adjustment programmes, while aid to non-reforming countries has begun to decline".

The report compared performance of the two groups in several key areas:

□ Despite their larger devaluations, inflation rates were lower in reforming countries than in the first half of the 1980s.

□ Governments in reforming countries substantially reduced their fiscal deficits.

□ Agricultural price policy became more favourable to farmers in reforming countries.

□ Decline in investment was almost arrested, compared with continuing decline.

GDP improved

□ Domestic savings rates improved.
 □ Agricultural production, exports and GDP improved. Agricultural production more than doubled between 1980-84 and 1985-87, compared with stagnation in the other category.
 □ Food production grew twice as fast in countries that liberalised food marketing or did not enforce controls.
 □ Average annual export growth rose 5 to 6% from the early 1980s to 1985-87, about double the rate of non-reforming countries.

□ Excluding countries faced by strong external shocks — notably the oil producers — GDP growth rose from just more than 1% during 1980-84 to almost 4% on average in 1986-87. The other group increased only a third as much in 1986-87.

Ghana bites the IMF bullet

11 Dec 25/13/87
ACCRA — The shelves of Kingsway supermarket in Accra are once more stacked with tins of English baked beans and sweet-meal biscuits

The bounty of such imported "luxuries" after years of shortages is proof for Western countries of Ghana's spectacular economic recovery under a rigorous International Monetary Fund (IMF) programme

The fact that a labourer earns less than \$1 a day and cannot afford these goods is a mere footnote to the impressive statistics charting Ghana's progress

Ghana's leader, Flight-Lieutenant Jerry Rawlings, who seized power for a second time in a December 1981 coup, has

thwarted political opposition and silenced any criticism of the economic reforms by a now compliant local Press



Rewarded

(156)

This has given him a free hand to bring in the devaluations, job cuts and removal of subsidies, which when tried in the past two years elsewhere in Africa, sparked riots in Zambia and Senegal, and trade union and press hostility in Nigeria

Since biting the IMF bullet in 1983 Ghana has been rewarded with more than \$3bn in loans, much of it from the World Bank

It is now the third biggest recipient after India and China of

the bank's highly concessional International Development Agency loans

Years of mismanagement and corruption combined with the forced repatriation of more than a million Ghanaians from Nigeria in 1982 and widespread drought and bush fires in 1983 drove the economy to its knees

The IMF cure — devalue currency, lift price controls, liberalise trade, increase farmers' incomes, sell state-owned industries and slash the 300 000 civil service

GDP growth may have averaged 5% a year since 1983 but more than half the population lives in poverty, say Western diplomats — Sapa-Reuter

Ghanaians plod a tough road to recovery

30/3/89

ACCRA — The shelves of the Kingsway supermarket in Accra are once more stacked with tins of English baked beans and sweetmeal biscuits.

The bounty of such imported "luxuries" after years of shortages is tangible proof for Western countries of Ghana's spectacular economic recovery under a rigorous International Monetary Fund (IMF) programme.

The first black African colony to win independence is now the darling of international aid agencies which see its success as a model for the rest of the continent.

The fact that a labourer earns less than a dollar a day and cannot afford the goods on display is a mere footnote to the tables of impressive statistics charting Ghana's progress.

More than 20 sub-Saharan countries, some of the world's poorest, are trying with mixed results to open up their often state-run economies to so-called free market forces to qualify for IMF loans.

Few have been as successful as this former British colony, which according to World Bank representative Rajendra Sharma, is the only country to have stuck to the Fund's often painful eco-

nomic reforms over six years without backtracking.

Ghana's leader, Flight-Lieutenant Jerry Rawlings, who seized power for a second time in a December 1981 coup, and his eminence grise, security chief Captain Kojo Tsikata, have thwarted political opposition and silenced any criticism of the economic reforms by a now compliant local press.

This has given them a free hand to bring in the devaluations, job cuts and removal of subsidies which, when tried in the past two years, have sparked riots in Zambia and Senegal, and trade union and press hostility in Nigeria.

Since biting the IMF bullet six years ago Ghana has been rewarded with more than \$3 billion in loans, much of it from the World Bank.

It is now the third biggest recipient after India and China of the Bank's highly concessional International Development Agency loans.

Few economists believe that Rawlings's left-wing government had any choice but to go the IMF way.

Years of mismanagement and corruption combined with the forced repatriation of more than a million Ghana-

ians from Nigeria in 1982 and widespread drought and bush fires in 1983 drove the economy to its knees.

The IMF cure — devalue the currency the cedi, lift price controls, liberalise trade, increase farmers' incomes, sell off state-owned industries and slash jobs among the 300 000 civil servants who administered Ghana's 13 million people.

The medicine has been painful. Gross domestic product growth may have averaged five percent a year since 1983 but more than half the population live in poverty, according to Western diplomats.

The aid has been poured into repairing roads and a railway to bring cocoa exports to rejuvenated ports and into rehabilitating gold mines.

This is not yet benefiting the people, said Reverend Asante Antwi, one of the few outspoken critics of the government.

"After suffering for seven years people still cannot make ends meet. Inflation has eroded their earnings and they cannot afford basic food and clothing," he told Reuters.

Interviews with government workers, labourers and market traders re-

vealed the same concern with inflation which Western economists estimate has come down from highs of more than 100 percent to 40 percent in 1987 and 30 percent last year.

The massive gradual devaluation of the cedi — from an official 2,75 to the dollar in 1983 to a free market 350 per dollar in March — has also jacked up prices and eroded savings.

"This year the government raised the minimum daily wage to 170 cedis. A bottle of beer costs 200 cedis," said one civil servant whose wife and children sell cheap goods on the roadside to supplement his 10 000 cedi monthly salary (\$28).

The United Nations Economic Commission for Africa last year highlighted the social cost of IMF restructuring. "Rather than improve the human condition some structurally adjusted programmes have aggravated it because they are incomplete, mechanistic and of too short a time perspective," it said.

Recognising this Western donors have pledged an additional \$85 million to alleviate social hardship caused by the restructuring — Sapa-Reuter

Africa's debt burden in spotlight

Star 3113187
WASHINGTON — Industrial nations must step up their efforts to reduce the debt burden of Africa's poorest countries and measures taken so far have yielded only modest benefits, the World Bank says.

In a confidential report to next Tuesday's meeting of the World Bank/IMF development committee, Bank president Barber Conable says a package of debt relief measures agreed by industrial nations last year has raised several concerns.

"It appears that the initiatives to provide debt relief are unlikely to reduce debt service repayments substantially over and above that occurring in conventional rescheduling," Conable says.

For some countries, the benefit has been as little as \$10 million a year.

The development committee, which

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traditionally examines third world problems, convenes at the end of the semi-annual meetings of the World Bank and International Monetary Fund, which begins today.

Talks will concentrate on the soaring dollar and a new US initiative aimed at lowering the debt of "middle income" countries such as Brazil, Mexico and Venezuela, but officials will also review on Tuesday a 1988 scheme to ease the \$130 billion burden on sub-Saharan African countries.

The World Bank's briefing paper says there have been some signs of progress in sub-Saharan Africa, with more than half the governments persisting with economic adjustment programmes and recording stronger growth rates. But the report adds: "Clearly a huge task remains."

— Sapa-Reuter

**Third World must act
to reduce debt — report**

WASHINGTON — New plans to reduce the Third World's debt burden could only work if developing nations put their economies in order, the IMF said yesterday. 156

"The most substantial contribution to a strengthened debt strategy will have to come from the debtor countries themselves," it said.

It was unlikely a blanket scheme for debt forgiveness would provide appropriate incentives for debtor nations to pursue the economic reforms necessary for growth.

The report also says industrial powers must act to reduce serious economic imbalances.

The US has been seeking support for an initiative which calls on industrial nations to examine debt reduction schemes backed by IMF and World Bank funds. IMF managing director Michel Camdessus has already welcomed the thrust of the plan. — Sapa-Reuter

IMF warns of need to control inflation

156 BIDcy 4/7/89

WASHINGTON — The powerful global economic expansion, now in its seventh year, will be in jeopardy unless inflation is controlled and trade imbalances are reduced, the International Monetary Fund (IMF) said yesterday.

Although the rise in interest rates in the past year could upset currency markets, increase the burden of Third World debt and hinder growth in developing countries, the IMF said more harsh medicine might be needed.

"The tightening of monetary conditions during 1988 has helped to reduce the danger of a significant pick-up in inflation during the period ahead. However, policy-makers should be prepared to take additional steps should inflation fail to moderate as envisaged," the IMF's staff said in their semi-annual World Economic Outlook.

The report was released as the IMF's

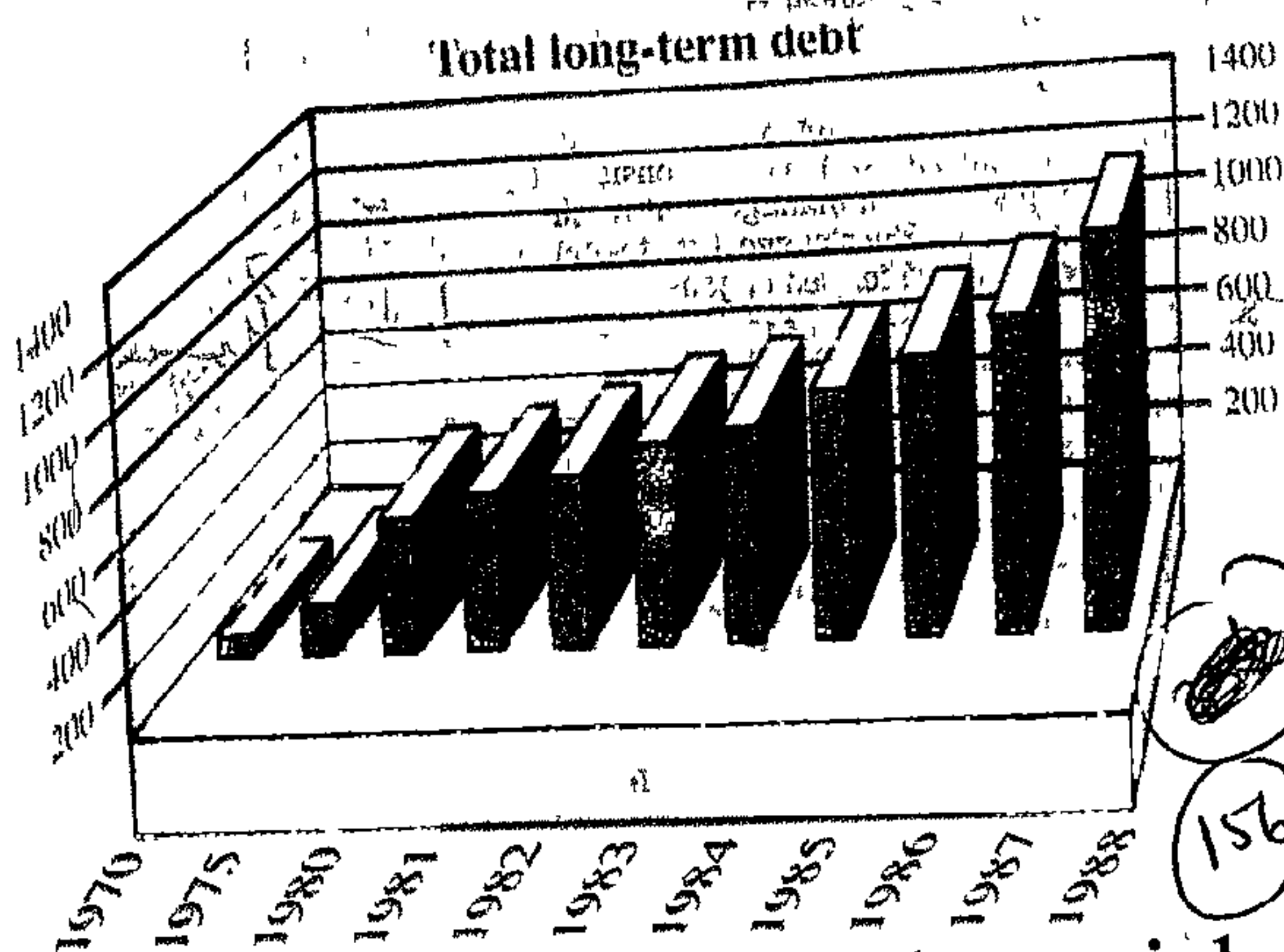
policy-making Interim Committee met to discuss the economy and new US proposals for reducing Third World debt.

The IMF said the harsh consequences of higher interest rates might be avoided if the US took urgent steps to cut its huge budget deficit, if necessary by raising taxes.

Essential

It said the Bush administration's deficit forecasts were optimistic and warned it might not fall much in the medium term unless new deficit-reduction measures were taken.

Staunching the flow of red budget ink, which would take some steam out of the import-thirsty US economy, was also essential to achieve better balance in world trade, it added — Sapa-Reuter



IMF, World Bank pledge quick action on debt-reduction plans

WASHINGTON — The United States won a pledge of prompt action this week on its Third World debt-reduction programme from the world's two most powerful lending agencies

On the final day of an International Monetary Fund (IMF) and World Bank session in Washington, the groups' steering committee said it considered moving ahead with the proposal to be a matter of urgency.

The plan, authored by US Treasury Secretary Nicolas Brady, marks a major change from past

policy by placing more emphasis on debt forgiveness

The plan got a major boost when the Japanese stepped forward with a pledge to provide up to \$4.5 billion in new loans to Third-World debtors over the next several years

The funds, however, did not match the \$5 billion to \$10 billion expected from the Tokyo government

The \$1.3 trillion Third World debt burden (see Trust Bank graph) has crippled the economies of developing nations and sparked economic and po-

litical unrest in many emerging democracies in Latin America

Riots left about 250 people dead in Venezuela last month, by official estimates, after the government announced a new austerity programme to please creditors holding the nation's \$33 billion debt.

Under the plan, commercial banks that have lent money to debtor nations would be encouraged to cancel voluntarily or reduce part of the loans, or cut the interest charges — Sapa-AP

Medicine exemptions

3104 12/4/89
REPRESENTATIONS regarding the exemption of certain medicines from the import surcharge list were being considered, the Board of Trade and Industry (BTI) said yesterday.

BTI chairman Laurence McCrystal said apart from exempting selected items of medical equipment from the list last week, it had also exempted certain agricultural implements.

He confirmed government had exempted certain medical equipment from surcharge retrospectively to August 15.

Items taken off the list included X-ray equipment, therapy and surgical appliances, electro-diagnostic apparatus and dental instruments, while those still on it included microscopes, thermometers, artificial joints, hearing aids, heart pacemakers, blood and plasma transfusion equipment.

DIANNA GAMES

Sectors of the medical equipment industry whose products were not taken off the list are to continue making representations to government to get more items exempted.

Frik Prinsloo, financial accountant of Research Instrumentation, which specialises in microscopes, said they had reapplied last week for microscopes to be removed from the surcharge list.

He said they had originally applied for removal when the surcharges were introduced but had been turned down.

Barry Furnaux, of Laboratory and Scientific, said the surcharges were a constraint on stockholding and cash flow and would push up the already high cost of health research and development.

African ministers want new aid deal

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ADDIS ABABA — African finance and planning ministers want to strike a new deal with foreign donors on a strategy for economic reforms, they said after a joint meeting here yesterday.

They adopted a strategy giving high priority to social and long-term development needs neglected in traditional reforms sought by the IMF, the World Bank and other donors in return for aid.

The strategy necessitated partnership among African governments and with development partners, a communique said.

The UN Economic Commission for Africa played a leading role in preparing the strategy, yet to be made public. — Sapa-Reuter

The world banking chiefs squabble over turf

WASHINGTON is watching an all-mighty row between the pre-eminent sisters of multilateral finance — the World Bank, the premier development agency, and the International Monetary Fund, the capitalist system's chief firefighter. It amounts to a battle for turf, brought to a head by the failure, in seven years, to resolve the Third World debt crisis and restore sustainable economic growth to large swathes of the globe.

The row is over which of these two agencies is going to play the lead role in the next act of this evolving drama. New US treasury secretary Nicholas Brady has outlined a change of policy towards Third World debt, and other key members of the seven top industrialised countries, such as Japan and France, have been pressing for a new initiative.

Expectations among debtors are high. This is why a territorial battle between the World Bank and the IMF is so serious. It makes it harder for a clear, coherent and bold new strategy to emerge. Instead of being part of the solution, the Bank and the Fund are in danger of becoming part of the problem.

Attempts at peacemaking were made this month when finance ministers from the 151 member governments — the Bank and Fund shareholders — held one of their twice-yearly meetings. But tension between the two institutions has been simmering for a long time, and previous attempts to deepen co-operation have failed.

The problem is that the Bank and the Fund are on convergent courses. When the institutions were set up in the mid-1940s, the division of labour was clear: the Bank was designed as a long-term development agency and the Fund was to provide short-term support for countries suffering unmanageable balance of payments problems.

The international debt crisis of the 1980s has forced the Bank to venture

The International Monetary Fund and the World Bank are involved in a battle for turf which could make them part of the Third World debt problem rather than part of the solution, say the editors of *South*, a business magazine "for the developing world".

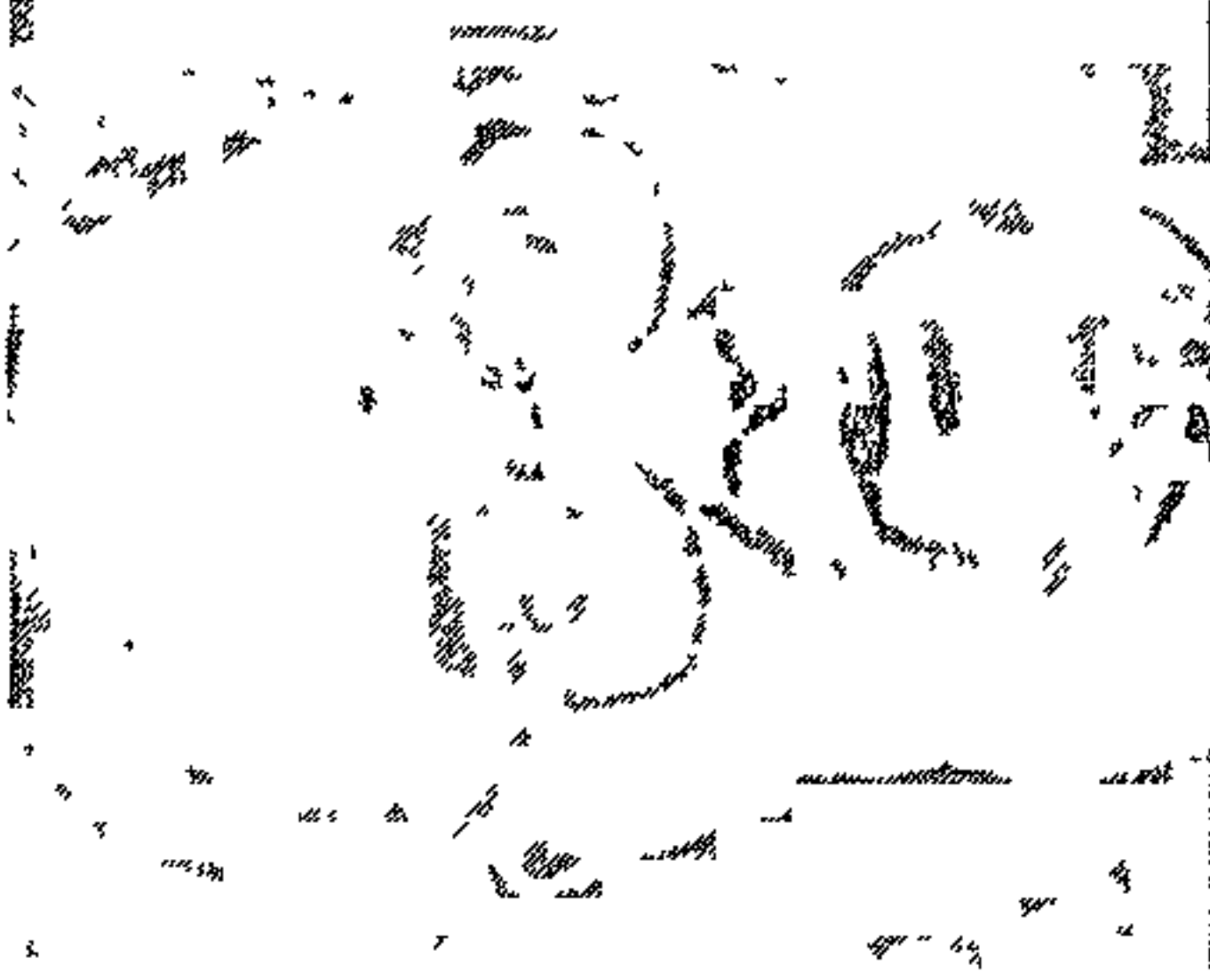
into medium-term lending for economic reform and obliged the IMF to provide resources for longer periods and with similar objectives, particularly in Africa.

From the onset of the debt crisis, the Fund took the lead role. This has been a source of disappointment and resentment for many at the Bank. As the IMF has run into increasing controversy, and the countries borrowing from it have slid into mounting arrears on their repayments, the Bank has tried to seize its chance to regain the initiative.

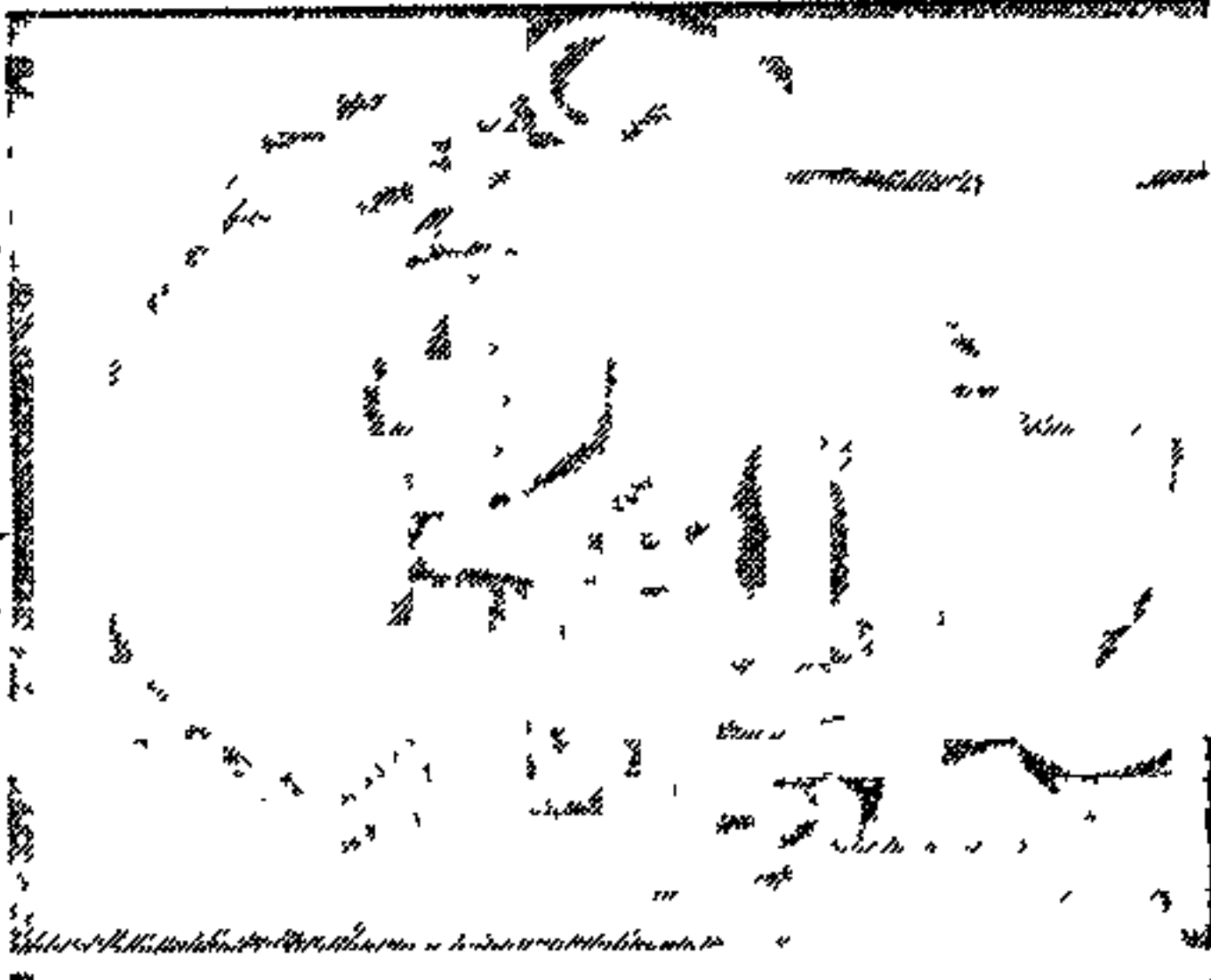
The situation came to a head last September, when World Bank president Barber Conable announced his agency was taking the unprecedented step of approving US\$1.2-billion in loans to Argentina even though the IMF disapproved of the country's economic policies and had refused to back them with a loan of its own.

IMF officials whispered that the Bank had been pushed into this action by the Reagan administration, which regularly tried to force the institutions to lend to countries deemed strategically important for the US. Conable was not strong enough to stand up to the US, officials at the IMF hinted, somewhat unfairly, as the Fund had itself been pressed into lending to Egypt and Zaïre against its better judgement. The Bank has now suspended some disbursements on its loans to Buenos Aires, saying it had failed to meet the conditions.

Michel Camdessus, French managing director of the Fund, who was



World Bank's Conable



IMF's Camdessus

said to be livid at the Bank's unilateral action over Argentina, has fought back against what is seen as Conable's expansion on to his turf. Until last September other lenders — both public and commercial — only acted when the Fund gave the green light. Camdessus prepared a paper insisting that the IMF primacy be restored.

Unusually, neither Conable or other senior Bank managers were consulted during the paper's preparation. When they discovered its contents they were said to be outraged.

Conable and Camdessus have apparently agreed to try and work out their differences. One idea sometimes mentioned is a merger between the two institutions. But this would just internalise disagreements. The Bank, anyway, is more likely to prevail in the long run — it has about four times as many staff and vastly larger sums to lend.

The more intelligent officials of both institutions admit that mistakes were made in the early 1980s. But they were venturing into uncharted seas, they say.

Some in the Bank want to facilitate fresh commercial lending by providing guarantees that new loans will be repaid. Camdessus is said to favour a

Japanese idea that the IMF should be used to buy developing countries' debt at a discount. Brady seems to support both ideas.

But ad hoc measures will not do. What is needed is a bold strategy — going beyond Brady's initial timid steps — to end the debt crisis and restore economic growth in the Third World, backed in full measure by leading industrialised countries. Once a coherent framework has been set, the roles of the Bank and Fund can be tailored to fit — *South Magazine*

14-20/4/89 (156)

IMF cautiously optimistic on world growth prospects

Industrial economies had an excellent 1988

Real gross national product (GNP) grew by an average of 4.1 percent — more than a full percentage point higher than forecast.

Business investment rose one percent, while world trade expanded by 9.3 percent — the fastest this decade. Inflation increased by only a fraction to 3.2 percent. Can it last?

The IMF's answer is a qualified yes. In its annual *World Economic Outlook* it forecasts that average GNP growth in the industrial world will ease to a still-healthy three percent this year and next. Inflation, though, it will rise to 3.8 percent this year, will drop back in 1990.

The IMF sees two risks

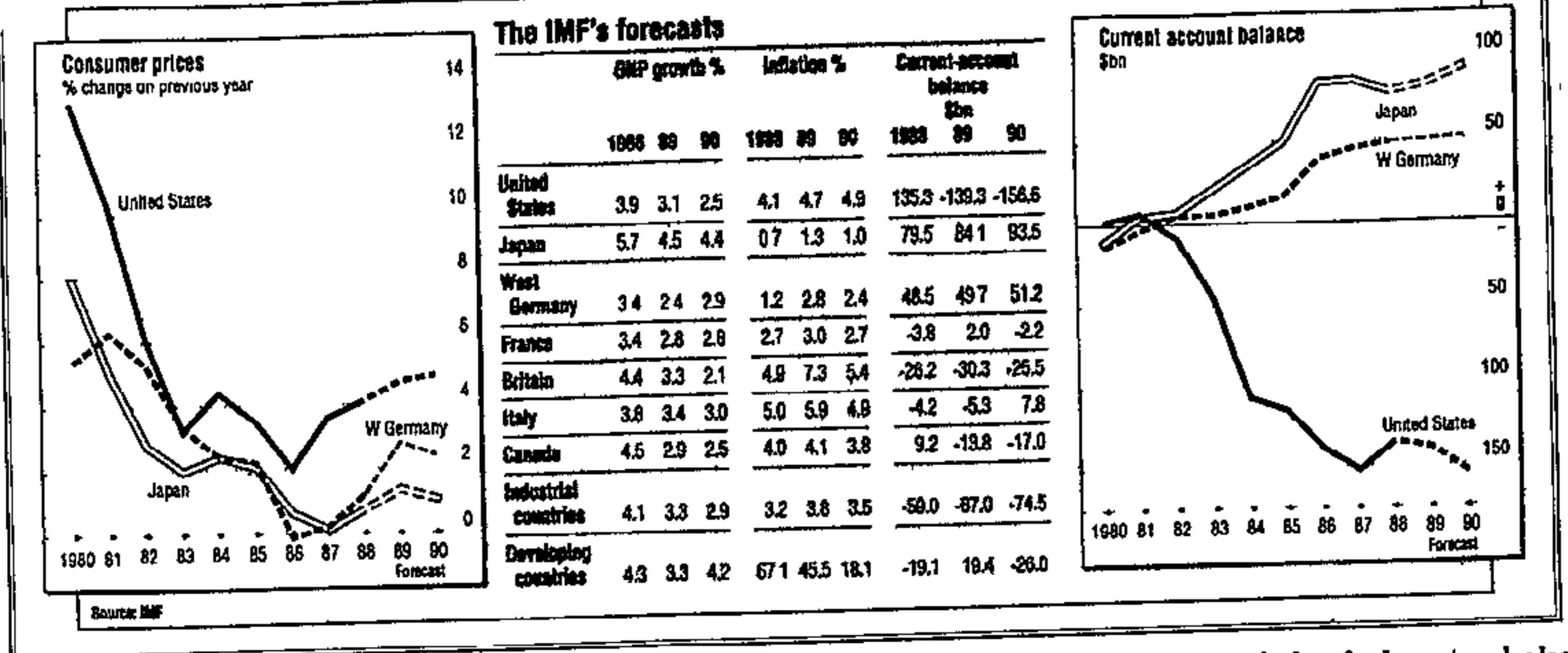
● **Inflation** Its economists believe tighter monetary policy in the main industrial economies over the past 12 months will cool overheating economies and keep inflation in check.

If, however, domestic demand continues to grow faster than capacity, governments must it says, stand ready to tighten up.

This poses the threat of a global interest rate war.

The result could be world recession and a worsening of the international debt crisis. So the IMF warns policymakers to lean less on monetary policy and to allow fiscal policy to share the burden.

● **Current-account imbalances** American's current-account deficit fell last year to \$135 billion from \$154 billion in 1987. Its exports rose by 24 percent in 1988, accounting for a third of the increase in world trade. Japan's current-account surplus fell from \$87 billion to \$80 billion.



Unfortunately, the pace of adjustment in trade imbalances slowed in the second half of last year as the impact of the dollar's depreciation started to taper off and Japan's capital-goods exporters got into top gear.

The IMF expects the imbalances to widen again this year and next. America's deficit is forecast to rise to \$139 billion this year and to a record \$157 billion in 1990, while Japan's and West Germany's surpluses widen.

Looking further ahead to the mid-1990s, the IMF does not expect the three big economies' external imbalances to change as a percentage of GNP — in dollar terms they will rise — assuming economic policies and exchange rates stay the same.

If so, the second assumption is unlikely to hold. More likely, foreign investors will eventually push the dollar down sharply.

The US Federal Reserve Board would be forced to raise interest rates to check inflation. The result: slower growth,

higher inflation and financial instability.

Everybody knows there is a better way. If America cuts its budget deficit, then the IMF's model forecasts a bigger reduction in the current-account deficit.

This remains wishful thinking. The American administration's estimate that the budget deficit will fall from \$163 billion this fiscal year to \$37 billion in the year ending September 1993 looks wildly optimistic.

This year, Japan and West Germany escaped the IMF's usual digs at their fiscal policies. With both economies close to capacity, there is no room for a further stimulus.

Indeed, Japan wins praise for its rapid adjustment to the stronger yen.

Last year its GNP grew by 5.7 percent, despite a fall in real net exports equivalent to nearly two percent of GNP. The IMF expects Japan to grow by around 4.5 percent this year and next.

West Germany's current-account surplus has continued to widen. The IMF takes West Ger-

many to task for failing to shake up the supply-side of its economy. The economy is riddled with rigidities, says the IMF, which distort responses to exchange-rate changes and insulate sectors from foreign competition.

While the IMF gives fairly high marks to Britain's monetary and fiscal policies, it is more gloomy about its current-account than the government. It expects a deficit of \$30 billion this year.

Developing countries grew by an average of 4.3 percent last year, the fastest rate since 1980, thanks mainly to the boom in world trade. But most of that growth was concentrated in Asia.

In Latin America and sub-Saharan Africa growth slowed. Growth relies on the industrial world. As a rule of thumb, if the growth rate in industrial economies falls by one percentage point, the export growth of all developing countries will be 1.5 points lower, and their GNP growth cut by half a point. — The Economist

'SA fully eligible for new loans from IMF'

156 17645 4/5/89

The Argus Foreign Service
NEW YORK. — South Africa is now fully eligible to receive new loans from the International Monetary Fund and has only to demonstrate need and present a financial-adjustment programme

This was stated in testimony to a United Nations panel by the Centre for International Policy, which opposes financial ties with South Africa

Its vice-president, Mr James Morell, said in a statement to the UN Sub-Committee on Petitions that such loans could be arranged in utmost secrecy and could be accomplished be-

fore opponents had a chance to make objections.

He predicted that an argument would be made that South Africa's relationship to the IMF was governed by legal criteria and that it was entitled to access to funds under the agency's rules.

A new loan would perpetuate apartheid into the next century by providing cash and "an aura of international approval", said Mr Morell.

He said his organisation was instrumental in obtaining United States congressional legislation in 1983 that imposed strict conditions on American approval for new loans for South Africa, but he acknowledged that loopholes remained.

Mr Morell said that with the right scenario for the re-scheduling of South Africa's bank loans, the United States, Britain and West Germany might well decide that new IMF lending was politically acceptable.

In other testimony, the Namibia situation was raised by Mr Roger Clark, vice-president of the International League for Human Rights.

He said that in the initial phase last month the UN, South Africa and Swapo all made miscalculations.

It was announced that a "week of solidarity" with the people of Namibia would take place under UN auspices, beginning on May 22.

Ivory Coast has to face cocoa problem

D/Day 15/5709 . (156)

ABIDJAN — President Felix Houphouët-Boigny has returned from two months in Europe to face a major test of his ability to restore Ivory Coast to its former status as the economic miracle of black Africa

After meeting International Monetary Fund MD Michel Camdessus, World Bank vice-president Moeen Qureshi and French president Francois Mitterrand, Houphouët-Boigny said the main problem facing the country was "defending and maintaining prices for raw materials"

He did not disclose details of discussions with the three, but said he would meet officials from the two institutions after meeting cocoa trade representatives

The small west African country of 10-

million people is among the world's most heavily indebted on a per capita basis, owing \$14.2bn, according to the World Bank. It suspended most debt payments two years ago and government sources expect a record budget gap this year of \$1.5bn

An IMF negotiating team was due in Ivory Coast at the weekend for what diplomats expected to be tough negotiations to refloat the Ivorian economy

Houphouët-Boigny insists on paying cocoa farmers \$1.24 per kg which, with transportation and other costs, cannot be recouped on world markets

The president says exploitation of farmers in his youth spurs him to pay what he considers a fair price

Last year Ivory Coast refused to sell at

the depressed market price and negotiated its biggest cocoa deal ever, selling 66% of its crop to a French trade house

Reports from London say Ivory Coast, in an about-face, has been negotiating with a London trading house to market its entire 1989-90 cocoa crop

If so, trade sources in Abidjan said, the cocoa support price has to go

"They'd have to change everything," one London trade source said. "There's no way they could market it if the price on world markets is £690 per tonne and the price to farmers comes to £800 per tonne"

One diplomatic source said the IMF was pressuring Ivory Coast to cut the cocoa price and trim the government payroll to economise — Sapa-Reuter



Mugabe spurns IMF proposals to cut spending

Star 2/6/89
By Robin Drew, The Star's Africa News Service

HARARE — Zimbabwe has rejected the advice of the International Monetary Fund (IMF) that it reduce spending on education and defence — the main areas which have led to a massive budget deficit

President Robert Mugabe this week outlined his government's thinking on the issue when he spoke to African ministers of industry who have been meeting in Harare

He it was important for countries themselves to determine, without external interference, their programmes within their capacity, at their own pace

He said the IMF wanted Zimbabwe to reduce spending on education, but the government would not deny children education

"It means condemning children to a life of ignorance. We have refused a life of darkness for them"

He added that defence spending was necessary to help protect routes to the sea through Mozambique as part of Zimbabwe's desire to free itself from dependence on South Africa

On suggestions that Zimbabwe's currency should be devalued — part of the IMF prescription — Mr Mugabe said this was meant to make imports dearer and exports cheaper

RESTRICTIVE PRACTICES

Exporting more and importing less was meant to result in a balance of payments equilibrium. But the snag was that because of a weak industrial structure, the country would not be able to produce locally the goods it needed

Since most primary producing countries produced the same type of products for export, an increase in supply would depress the prices, making it worse for developing countries. The action would also result in price increases locally

As a consequence, said President Mugabe, many Third World countries had run into political problems as people rioted against price increases and the erosion of their standard of living

While the poorest African countries were being urged to make structural adjustments, industrialised nations such as the United States and countries in the EEC had implemented restrictive trade practices

ECONOMIC ORDER

He said that this led one to question how free was the "free trade" the developed nations were calling for

He urged African countries to learn from South America, the Far East, and the Asian peninsula, which had taken their rightful place on the global market. India and China were clearly on the horizon

"The NIC and the Comecon states have shown that latecomers can overtake early starters, and that there is nothing fixed about the existing international economic order, provided there is a will to bring about change"

The pace-setters had developed their own manufacturing industries while facing similar difficulties and challenges, and had succeeded

He said regional economic co-operation was necessary to create bigger markets and to justify the establishment of heavy industry for capital and intermediate goods

It was to African states themselves to take the measures necessary to develop management and technical skills, to mobilise finance and other physical resources, and to acquire and develop the technology to industrialise their economies

Africa should not write itself off as economically and politically irrelevant

STime 11/6/89

Debt plan bogs down

(156)

WASHINGTON — The World Bank and International Monetary Fund are trying to get the stalled Mexican debt talks off the ground.

But even with prompting from the Bush Administration, the commercial banks are refusing to join the parade.

Using the international monetary conference in Madrid as a staging area, aides

to Treasury Secretary Nicholas Brady and officials of the bank and fund tried to jumpstart the Latin American debt vehicle with a \$6.2-billion package of promises for Mexico. The hopes were that the bankers would rush to settle their differences with the Mexican Government before they were left behind in the restructuring.

But there is only a slight

prospect of a debt rescheduling agreement among the Mexicans, the banks and the aid agencies by the time of the Group of Seven leaders meeting in Paris in mid-July.

The queue of soon-to-be-defaulting nations continues to grow. Brazil needs \$4.2-billion in promised new money if it is to avoid a moratorium on the \$14.6 billion in arrear interest payments.

Objections to IMF membership 'purely political'

July 17 1987
LISBON — Angola yesterday urged Western countries to ignore US objections to its application to join the International Monetary Fund (IMF).

Briefing foreign diplomats, Foreign Minister Pedro de Castro Van-Dunem dismissed US opposition as "purely political" and pledged his country would meet IMF obligations.

Bankers say Angola needs IMF and World Bank membership to help reschedule about \$4bn of foreign debt and carry out economic reforms.

Van-Dunem referred to peace moves under way to end 14 years of civil war and said IMF aid could help Angola rebuild social and economic infrastructure destroyed in the war.

The minister, whose remarks were carried by the Angolan news agency Angop monitored in Lisbon, said IMF

officials were due to vote on the matter on July 18. He called on the diplomats to use their influence.

At the same time Unita leader Jonas Savimbi called for ways to verify compliance with the two-week-old ceasefire agreement that both sides accuse the other of violating.

Savimbi told a news conference in the Ivory Coast economic capital of Abidjan that there had been 47 MPLA violations of the ceasefire.

The MPLA said earlier it had noted at least 30 violations by Unita.

Savimbi denied his men had violated the ceasefire, but he said it was not clear from the Gbadolite agreement what constituted a violation.

"Is air reconnaissance a violation of the ceasefire or not? Resupplying garrisons is it a violation or not?"

(156)
Savimbi said the peace process had a long way to go, but he was still optimistic and for Unita "there is no question of going back".

On Wednesday Van-Dunem accused Unita of trying to distort the terms of the peace plan.

Privately, Angolan officials say Savimbi has accepted an idea for him to temporarily keep out of Angolan politics and even leave the country.

But Savimbi said he did not intend to disappear quietly.

"If I'm not dead and haven't been killed they cannot ask me nicely to go elsewhere," he added.

"I am going to stay at the head of my movement until we can organise elections. The idea of exile shows a certain weakness on the part of the other side." — Sapa-Reuter

UN says IMF-World Bank programmes for Africa have failed

NAIROBI — More African countries were turning to the IMF to bail out their economies although, the UN Commission for Africa said, IMF and World Bank programmes on the continent had failed.

About 30 countries in sub-Saharan Africa have accepted, or plan to accept, reforms approved by the IMF or World Bank.

They often include steep currency devaluations, budget and subsidy cuts, relaxation of price and trade

controls and introduction of producer price incentives for farmers.

When Zaire ditched a programme of reforms agreed with the IMF in 1987, the then Prime Minister Sambwa Pida Mbagui complained: "They tend to treat us like a colony."

Last month, however, Zaire announced a new agreement on a recovery plan for 1989-90.

Critics of the IMF argue its reform packages focus too much on

short-term balancing of finances through spending cuts which undermine health, education and other social needs.

The UN Commission for Africa said: "There is mounting evidence that stabilisation and structural programmes are rending the fabric of African society."

It recommended gentler treatment of Africa's economic problems. — Sapa-Reuter

(156)

WMAU

IMF agrees at last to help Zambia

ZAMBIAN President Kenneth Kaunda said this week the International Monetary Fund and World Bank had agreed to support Zambia's fourth national development plan.

Although he could not yet divulge how the two institutes would support the plan, Kaunda said he had already sent envoys to various donor countries to seek their assistance in implementing it.

Zambia, facing serious economic problems since 1987 when it cancelled the IMF-sponsored foreign exchange auctioning system, has been involved in protracted negotiations with both the World Bank and the IMF to regain their support.

The country is suffering from a 70 percent inflation rate, a shortage of foreign exchange and a foreign debt among the worst in the world.

Western diplomats said Kaunda was clearly hoping the IMF would publicly declare its support for his economic policies, so encouraging donors to go back to helping the country.

They said the rift with the IMF had cost Zambia more than \$500-million in lost aid and predicted the reaction of the donors was likely to be cautious.

A formal agreement with the IMF still looked a long way off, as Zambia owed more than \$1-billion in debt arrears to the IMF and World Bank and would first need to seek donor support to bridge that deficit, the diplomats said.

Kaunda made the announcement at a press conference to explain a plan announced last month, including devaluation of the kwacha by 60 percent and decontrolling of all essential commodity prices except for staple maize meal. — DPA and Sapa-Reuter

IMF to listen to SA address in earnest

By Trevor Walker

CAPE TOWN — South Africa, long denied participation in nearly all the representative bodies of the UN, is set to make a comeback at the one body that really counts, the International Monetary Fund (IMF)

Finance Minister Barend du Plessis says "When I speak at this year's annual meeting on September 27 I expect member countries to be much more receptive to our economic line of reasoning

"South Africa is visibly playing a major role in Sub-Saharan Africa and political rhetoric cannot gainsay this"

For many years now, when the South African minister of finance delivered his annual address to the IMF, the hall was empty except for a handful of South African and foreign journalists

It had become a tradition that South Africa's statement to the meeting was made just after lunch, which allowed delegates an extra coffee

However, this year the position is different. The political advances that have been made in Angola, Namibia and Mozambique and certain other countries, will be reflected in a more positive approach being adopted by delegates

Political developments in Sub-Saharan Africa have turned favourable for South Africa in recent months and the pivotal role that it should be allowed to play has become much more obvious and visible

Deputy Reserve Bank governor Dr Japie Jacobs says South Africa's sensible and honest approach to development in the region is being recognised

"Our participation in and financial commitment to the Lesotho Highlands water project has been acknowledged"

South Africa was a founder member of the League of Nations, the UN and the IMF

The small economies of Swaziland, Lesotho and Zimbabwe are all represented at the IMF

Angola, Mozambique and Namibia are expected to be granted membership

South Africa, despite US sanctions, remains the power house of the continent, south and north of the equator in macro terms

However politicians might wish it away, the facts speak for themselves

Its electricity utility, Eskom, is building five mega stations, any two of which would be able to satisfy the rest of the continent's electricity requirements

Egypt, Nigeria, Libya, Zimbabwe, Angola use about the output of one of SA's power stations

South Africa has more macadamised roads, rail lines, train engines, aircraft, tugs, ships than any other nation on the continent

Zimbabwe had recently hired eight locomotives from South Africa because of failures in its own fleet, but if it had had the necessary foreign exchange SA could have supplied 50 units

The World Bank had prejudiced the positive role that SA should be allowed to play in the economic advance of Sub-Saharan economies, but local political sources say the wheel has turned and the economic realities that fostered perestroika and glasnost have become an equal reality in Southern Africa

Now meet the real Goldfingers

Star 19/8/89

CENTRAL banks are starting to manage their massive holdings of gold more actively. The impact on the gold market could be dramatic. (156)

WITHOUT news, the gold market is a dull place. Gold pundits reckon they can forecast mine production and jewellery fabrication accurately enough for the next year or two, and their fears about inflation and dollar volatility have subsided since the early 1980s.

What the market likes in order to perk it up is either a good war, or news that central banks are in the market, either buying or selling.

There are an estimated 100 000 tons of already-mined gold lying around. Over one-third of it is locked away with the world's central banks and the International Monetary Fund.

More adventurous central bankers (they do exist) have often asked whether such a large holding of an asset that is expensive to store and earns no interest are justified.

In the late 1970s, the Carter administration and the IMF sold over 3 000 tons of gold in an attempt to wean central bankers off the metal and on to SDRs (Special Drawing Rights). But old habits die hard. The inflationary surge of 1979-81 made central bankers seek refuge in the traditional haven of gold.

Even though inflation and gold prices have since fallen, the buying goes on. In seven of the past nine years central banks have been net buyers of gold, adding 983 tons to their holdings at a time when mine production expanded from 959 tons in 1980 to 1 538 tons in 1988.

These aggregate figures hide a more interesting pattern, which Mr Andrew Smith, at London's UBS Phillips & Drew, has had a go at uncovering.

He divides central banks with significant holdings of gold into four groups (See chart). The median share of gold in the banks' total reserves was 28 percent at the end of last year. Any bank with less is deemed to be underweight in gold and hence a potential buyer. And vice versa.

The vertical axis is set at a debt-service ratio (ie, the proportion of a country's export earnings needed to service its external debt) of 70 percent. Above

that figure, reckons Mr Smith, a country is in acute difficulties and may be forced to sell gold.

These crude yardsticks highlight one thing: potential sales of gold by central banks are huge. But many of the countries in the top-left of the chart are perfectly happy to be overweight in gold.

The Swiss National Bank, for example, knows that if it were to reduce its holdings of 2 590 tons of gold (or 57 percent of its total foreign reserves) the effect on the country's reputation as a safe haven for gold deposits would be severe. Others might like to sell, but do not know how to without depressing the gold price.

Different tactics

Canada and Belgium have tried two different tactics. In 1980 four-fifths of Canada's reserves were held in gold.

Through sales in the open market Canada has now reduced this proportion to under a third. Traders complain about the damage to confidence caused by a gold producer and marketer of gold coins selling off its own reserves.

Belgium chose a subtler route. At the beginning of this year it owned 1 047 tons of gold, accounting for 58 percent of its reserves. It admits to having sold 127 tons between December 1988 and last March.

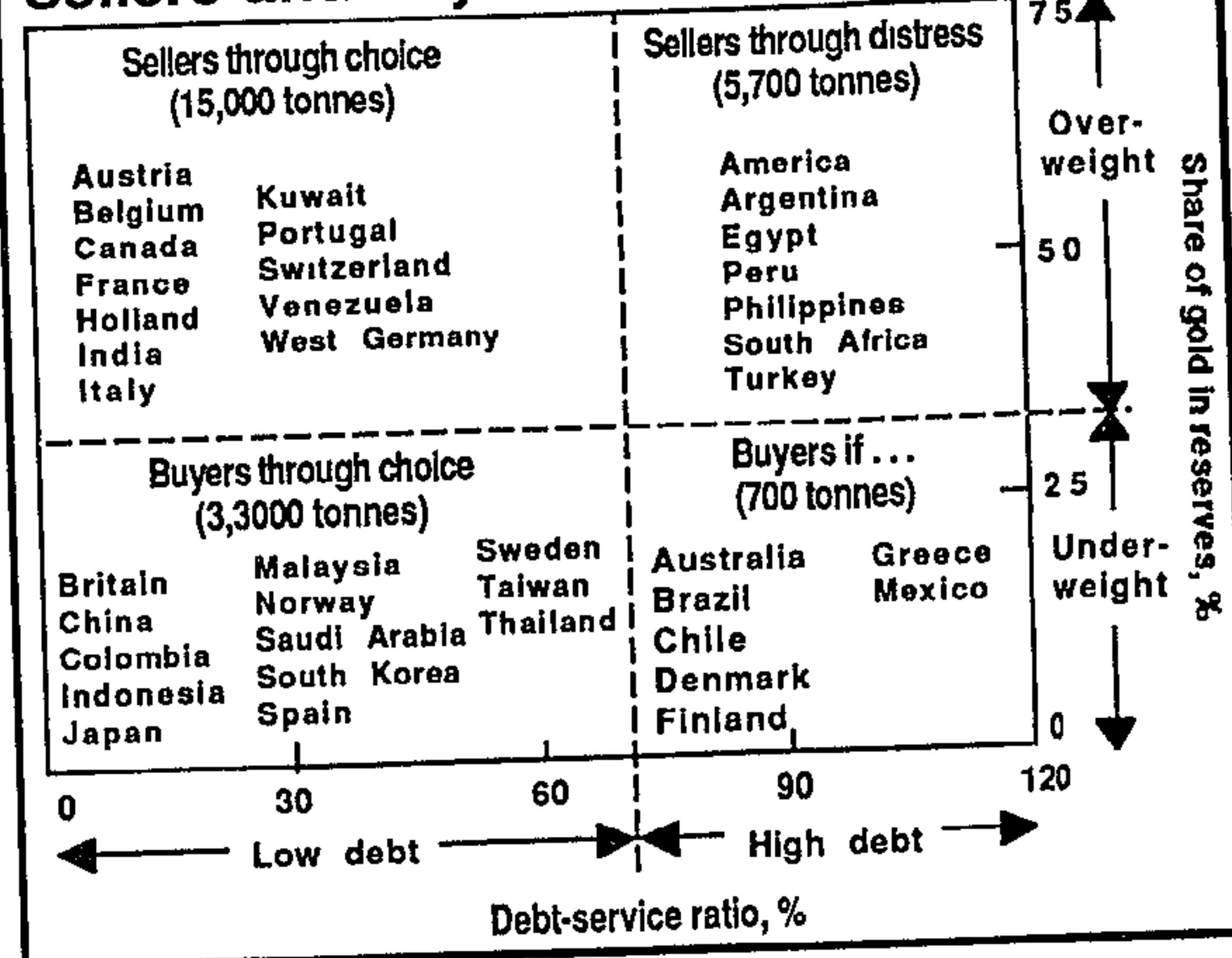
At around the same time, Spain's gold holdings rose by 65 tons. What odds that the Bank for International Settlements in Basle arranged for Spain to buy the gold from Belgium?

It would take the nose of Hercule Poirot to discover what happened to the other 62 tons. Some dealers reckon that a portion of it ended up on the open market. If so, prices were remarkably stable during the sales.

The problem for debtors has been how to make use of their gold without selling it. Most keep their gold at home so that it cannot be seized if the country defaults on its debts.

But this has its disadvantages. Each

Sellers and buyers



time trucks leave the central bank, the rumour starts that the asset-of-last-resort is being sold. And banks are not happy to accept gold stored in Lima or Buenos Aires as collateral. They prefer the Bank of England or the New York Fed.

Earlier this year, Venezuela moved a portion of its 356 tons from Caracas to the Bank of England to serve as collateral for a \$600 million loan. As yet, this has not affected the price of gold in the market, but will Venezuela be able to pay back the loan at maturity or will it be forced to sell the gold to do so?

A more tantalising question is whether America, the world's biggest debtor, will start to use the 8 145 tons of gold it has tucked away in Fort Knox to help finance its current-account deficit.

Japan and Taiwan both have less than 10 percent of their reserves in gold and most of the rest in dollars. Both are keen to cut their massive exposure to the dollar and now would be a good time to do so — the dollar is strong, the gold price weak. Wouldn't offering sovereign investors in Treasury bonds convertibility into gold soothe Asian nerves?

Certainly, but it would also cause

panic among private investors not eligible for such treatment. And it would require the American government to do an embarrassing U-turn.

Between September 1987 and June 1988 Taiwan bought 246 tons of gold, mostly through the New York market. The Americans saw this as an artificial means of cutting the trade imbalance between the two, they told the Taiwanese to stop buying gold and to start buying American food and goods.

In May the Taiwanese central bank came back to the gold market for the first time since then and bought a measly (for it) 1.5 tons. It is said to be scouting Europe for a central bank keen to do a deal like the one between Belgium and Spain.

This could depress the price of gold, since a shuffling of gold from one central bank to another does not take any gold off the open market.

Taiwan will therefore have to keep any off-market deal secret, for otherwise it will be buying against itself. At least bored traders will have something to speculate about over lunch — The Economist

Economies grow but debts cast a shadow

WASHINGTON — World economic growth has proved to be surprisingly strong, but the burden of debt is still crushing many poor countries, says the IMF annual report.

The 151-nation lending agency welcomed the continuation of healthy growth in output and investment in the industrial world and said developing nations as a group enjoyed one of their highest growth rates in a decade in 1988.

But the IMF warned that the current prosperity is threatened on a number of fronts and said governments must co-ordinate their policies better.

How to sustain economic growth and ease the burden of Third World debt will be major topics when thousands of officials and bankers gather here next week for the annual meetings of the IMF and its sister agency the World Bank.

Resources

As in the past, the IMF aimed its bluntest warning at the US, whose massive trade deficit remains a major source of vulnerability in the agency's view.

The fund said the best way to reduce the trade deficit was to close government's budget gap, which would allow resources to be channelled into exports without adding to inflation or crowding out investment.

As well as the need for "urgent and forceful" action to reduce the budget deficit, the IMF said measures might also be needed to end the US tax code's bias against private saving.

Deregulation

The IMF had kinder words for Japan than it had for the US. It commended the authorities on their handling of the budget and said the scope for unilateral financial action by Tokyo to reduce its external surplus was limited.

West Germany, the IMF said, must act more boldly to free goods and labour markets. "Progress in relaxing structural rigidities on deregulation has been slow and disincentives in some critical sectors continue to hamper economic activity."

Further improvements were likely this year, but the IMF warned "The debt burden nonetheless remains particularly onerous for the heavily indebted middle-income countries and low-income sub-Saharan African nations" — Sapa-Reuter

IMF may face own debt crisis (156)

WASHINGTON — The International Monetary Fund (IMF) must increase membership fees and be given more clout if it is to avoid a debt crisis of its own in the mid-1990s, economic analysts said yesterday.

Richard Feinberg, Overseas Development Council vice president, said the fund could face greater financial risk under the debt-reduction policies of Treasury Secretary Nicholas Brady.

"The danger is that International Monetary Fund exposure in the uncredi-

worthy developing countries will increase without a significant scaling down of its debt overhang," Feinberg said.

A pool of \$30 billion in IMF, World Bank and other funds has been made available under the Brady plan for debt-reduction operations.

"If the IMF and the World Bank are not careful, the debt crisis of the mid-1990s could be their own," he said.

Feinberg spoke at a news conference in which

he presented an Overseas Development Council study recommending a 50 percent increase in IMF membership fees. The study was released less than two weeks before the IMF annual meeting in Washington.

A 50 percent quota increase would raise membership payments from the current approximately \$117 billion — \$90 billion in IMF Special Drawing Rights (SDRs) — to \$175.5 billion or \$135 billion SDRs.

They said it also would permit annual lending of \$12 billion from 1990 to 1994, and positive net disbursements of \$6 billion.

During 1987-1988, the IMF took from the Third World a net \$16 billion and in effect added to underdeveloped countries' financial problems, the study said — Sapa-Reuter.

Govts hold \$360bn gold pile

WASHINGTON — Governments, central banks and other official institutions are sitting on more than \$350bn worth of gold, valued at current market prices, according to the IMF. 156

The IMF, which itself has gold reserves worth about \$36bn, said on Wednesday in its annual report there has been little change during the past decade in the overall amount of gold held by member countries or in the distribution of such assets.

All together, the IMF says, the governments and central banks of industrial countries held about 780-million ounces of gold in mid-1989, while all of the world's developing countries held slightly less than 162-million ounces -- AP-DJ. (156)

Capital outflow up for discussion

£100m 2019/84

GRETA STEYN

LONDON — SA's huge, unidentified capital outflows will be one of the main economic issues on the agenda when SA and its foreign creditors hammer out a new repayment agreement on about \$8bn of debt caught in the standstill net.

A banking source, speaking on condition he was not named, said these outflows indicated SA might be able to afford more substantial debt repayments than it had made in terms of the Second Interim Arrangement of 1987. The agreement expires in June 1990 and SA and the technical committee representing its major creditors have to reach a new agreement before then.

Efforts to obtain on-the-record comment this week from SA's main British creditors, Barclays Bank, Standard Chartered and National Westminster, met with a unanimous "no comment". The three banks' exposure to SA is about £1.5bn.

Rescheduling SA's foreign debt is a sensitive subject, especially in the run-up to the Commonwealth heads of government meeting in Kuala Lumpur next month, when the issue of tightening financial sanctions will be voted on.

However, apart from political pressure on SA's creditors, the country's

capital account on the balance of payments (BoP) could aggravate its difficulties in obtaining a favourable agreement. Outflows of short-term capital — not debt repayments — have continued at a rapid pace and, the source said, the country's creditors could well ask why more of this foreign exchange is not coming their way.

Unrecorded

Repayments of debt inside the standstill net represent only a fraction of total capital outflows. Reserve Bank figures show that of the R25bn in total capital outflows since 1985, only R3.6bn was for debt inside the net. Another R10bn was repaid on debt outside it.

Questions are being asked about the remaining R10bn, which is accounted for by short-term (trade-related) outflows — and unrecorded transactions. The banking source noted International Monetary Fund (IMF) statistics showed SA's outflows under "errors and omissions" on the BoP capital account had become "big money".

Politics aside, the issue between SA and its creditor banks is affordability. The banking source said SA's foreign debt ratios were another indication that

it could, perhaps, afford to pay more. The Bank's Quarterly Bulletin shows the ratio of interest payments to total export earnings declined to 6.5% in 1988 from a high point of 10.7% in 1985, despite the upturn in international interest rates.

The source said the banks would press for the largest repayments possible while the South Africans would obviously want the opposite. Reserve Bank Governor Chris Stals has said the two groups will have to reach consensus on the SA economy and what it can afford.

Stals's strong stance on the need to replenish reserves stands in sharp contrast to the arguments that SA could afford to pay more.

SA's bargaining power was stronger than widely believed, the source said. Any agreement between SA and its creditors was informal and hinged on SA's willingness to repay.

Even though the South Africans wanted to maintain their links with the international banks, they could not be pressured into an unreasonably harsh agreement.

Political activists seem to have overlooked SA's bargaining power.

SA's credit record should also stand it in good stead. Barclays bank recently wrote off £233m against doubtful sover-

ign debt, but its provisions did not include its SA exposure (about £570m) because, it said, that would amount to "robbing the shareholder".

There is little doubt an agreement will be reached and evidence of this is the activity in the secondary market for Third World debt. A trader said the market was assuming a third agreement on the affected debt would be reached before the expiry date of June 1990. Many buyers of SA debt, which is trading at a 30% to 35% discount, are buying for investment purposes.

But although an agreement seems almost certain, the question is still the terms of the agreement.

Recommendations

Commonwealth pressure is focused on the terms and conditions and on making it as hard as possible for SA to stay in its bankers' good books.

SA's creditors are currently studying the recommendations of the Commonwealth committee of foreign ministers.

Behind-the-scenes negotiations between SA and its foreign creditors are likely at the IMF conference next week at which both the mounting political pressure and the SA economy will be discussed.

G-7 to ponder the dollar question

B1 Dec 20 1987

FRANKFURT — Key officials from the Group of Seven (G-7) top industrial nations will stress commitment to economic co-operation this week but this may only mask growing differences on how to deal with the strong US dollar.

European economists worry that by just paying lip service to the idea of currency co-operation they may provoke a further rise in the dollar which most countries want to avoid.

G-7 finance ministers and central bank chiefs will meet in Washington on Saturday on the eve of this year's autumn meeting of the IMF and World Bank.

The seven nations — the US, Japan, Britain, West Germany, France, Italy and Canada — will be able to congratulate themselves on guiding the industrial world into a seventh consecutive year of growth in 1989.

But on the currency front, no new major initiatives are expected, in spite

of worries about continued dollar demand.

A senior US official said last week no firm decisions had been taken on how to deal with the high dollar, which he said was causing "considerable concern" in Washington and abroad.

Imbalances

Japan's Nihon Keizai Shimbun newspaper said yesterday a G-7 statement draft warned the current dollar rise could slow the pace of improvement in international trade imbalances.

The dollar climbed to DM2.00 on Friday and is still clearly above the DM1.90-level previously seen as a G-7 ceiling.

The most damning appraisal of the

G-7 came last week from US economist Fred Bergsten, who said G-7 co-operation was a shambles and had lost credibility.

While a European central bank official said the dollar would feature high on the G-7 agenda, he added "It may be best to sit on your hands a bit. It is not a crisis."

UK Chancellor of the Exchequer Nigel Lawson told a news conference that the dollar's present level was tolerable, although he added G-7 leaders were concerned about it getting too strong.

Economists said the strongest signal to markets would be interest rate rises in West Germany and Japan, matched by a loosening of the monetary reins in the US.

But while Germany could defend higher money because of the strongest growth in a decade and plans for fiscal relaxation in 1990, Tokyo officials see no imminent Japanese discount rate rise.

Intervention

US economic growth indicates no US relaxation.

Economists believe a persuasive G-7 stance on currency market intervention is even less likely than an agreement on interest rates.

In spite of sporadic concerted dollar sales this year, the main thrust of the intervention has come from the US and Japan.

The other key player — the Bundes-

bank — has said repeatedly intervention does not work. "The Bundesbank only intervenes so it won't be accused of being uncooperative," a German banker said.

A G-7 project to monitor individual economic performances by reviewing economic indicators, including commodity prices, is also unlikely to make much progress in Washington.

West Germany in particular refuses to allow indicators to become binding for policy.

While skirting round the currency problem, economists believe the G-7 statement will make its standard call for the US to reduce its budget deficit and for deregulation in West Germany and Japan — Reuter.

SA will boost African economic ties, Barend tells IMF 156

WASHINGTON — Finance Minister Barend du Plessis vowed to strengthen economic ties between SA and other African countries when addressing the IMF AGM yesterday.

Du Plessis told Business Day in an interview his meetings had been "exciting". "In private discussions here it was clear to me the spirit of reform in SA under President F W de Klerk has softened attitudes dramatically."

In a speech placing great emphasis on SA's economic role in the continent, Du Plessis said regional co-operation was of the utmost importance "It needs to be reiterated that the people of my country iden-

GRETA STEYN

tify with the aspirations and development needs of sub-Saharan Africa and within our means we stand ready to actively render support where possible."

Regional co-operation offered opportunities for the smaller countries to derive substantial benefit from economies of scale, avoiding unnecessary duplication, and improving their competitive position, he said. Small internal markets and low purchasing power were barriers to international competitiveness in many of the countries in the region.

Du Plessis has always stressed SA's eco-

nomic role in the continent, but yesterday's speech was described by South Africans here as his strongest statement yet.

He emphasised SA was a developing country and took the concept of co-operation further to encompass education. "In so many respects, we are also a developing country, experiencing the typical constraints in creating and supporting an adequate educational system."

SA understood the need for basic facilities to be able to utilise the sophisticated educational aids capable of supporting the educational process, both quantitatively and qualitatively.

Du Plessis told Business Day that differ-

ent African countries could share the same educational computer programmes, to name one example.

He stressed regional co-operation in his speech by saying successful adjustment programmes entailed the development of both infrastructure and human resources.

He addressed many of the main themes of the conference — the increase in the IMF's quotas, replenishment of the World Bank's resources, the debt crisis as well as the environment issue. The World Bank is increasingly focusing on the environmental aspects of development and the impact

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Economic ties (156)

on the environment of its programmes

On this issue, Du Plessis said "Aware of the spillover effect of environmental problems SA pledges its full support in preserving the natural environment in the interest not only of itself but also of the region and the world at large."

On the quota issue, he reiterated SA's

stance that an increase in the IMF's capital base was needed. In this SA supported the developing world with the US opposed to a large increase in quotas.

On the debt issue, he noted SA had learnt at first hand that adjustment was "a traumatic and painful process"

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Third World loan scrutiny

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WASHINGTON — Main economic issues at the joint AGM of the IMF and World Bank are Third World debt, trade imbalances between the world's major economies and the increase in quotas

US Treasury secretary Nicholas Brady's debt relief plan for Third World countries is being blamed as part of the reason why major US banks are setting aside massive reserves against Third World debt, which stands at about \$1 300bn

Last week Morgan Guarantee set aside \$2bn, following similar moves by Chase Manhattan and Manufacturers Hanover.

New loans

Reuters reported bankers in Washington said US banks were getting more pessimistic about the willingness of lesser-developed country (LDC) debtors to repay loans, since Brady offered the countries the promise of debt reduction

More international banks are expected to follow suit, prompting speculation that new loans to LDC's would be difficult to raise

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Under the Brady plan banks have three options to reduce Mexico's debt — write-offs, cuts in interest rates or new loans

The Washington Post said that similar accords existed with the Philippines, but negotiations with Costa Rica and Venezuela had reached stalemate

According to the IMF's world economic outlook, the ratio of debt to exports in developing countries averaged 140-0/0 at the end of 1988.

By comparison, SA is a star performer with a ratio of 82-0/0 while in Africa the ratio of debt to exports is expected to climb to 450-0/0 by 1990

On the trade imbalance between the US, Japan and West Germany, IMF research director Jacob Frenkel said at a Press briefing "As they (the external imbalances) continue, the threat of protectionist measures by the deficit countries grows stronger"

At the same time, the possibility existed that the markets could react violently to the problem if unsolved, he said

The economic outlook says the adjustment process appeared to have stalled and noted that West German and Japanese surpluses still amounted to 4,25-0/0 and 2,75-0/0 of GNP, respectively, in 1988, while the deficit of the US exceeded 2,5-0/0 of GNP

The debate about increasing the quotas is more about politics than economics

Increase

Voting is based on each member's contribution to the fund's capital and the US, on its nearly 20-0/0 contribution, is almost as powerful as the next four leading contributors

Japan, the fifth largest IMF contributor, would like to increase its stake and move into second place ahead of Britain (6,88-0/0)

IMF MD Michel Camdessus said the majority of members supported a substantial increase in quotas, although the US does not and "Britain and Saudi Arabia also dissent" SA's quota consists of 916 special drawing rights (SDRs) which gives it only 1-0/0 of the vote

Should Camdessus succeed in doubling the quota, SA's reserves will face pressure

IMF reports more borrowings by SA

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WASHINGTON — Persistent rumours that SA made massive use of foreign bridging finance to meet its foreign debt commitments in June are confirmed by IMF statistics released here

International financial statistics show the SA monetary authorities' foreign liabilities jumped by almost R2bn in May, just ahead of the repayment of debt inside and outside the standstill net in June, to stand at R5,3bn. This increase in foreign liabilities to a new record can only be explained by emergency credit facilities and loans against gold. The figures confirm persistent talk in banking circles that the Reserve Bank had drawn heavily on its short-term credit facilities to tide the country over a period of intense strain on its foreign reserves.

These rumours could not be confirmed in SA as the Reserve Bank has ceased disclosing its foreign loans, both in the quarterly bulletin and in its financial statements, for fear of drawing attention to banks that provide it with bridging finance. The credit provided to SA in this way is similar to an overdraft. The jump of almost R2bn in the monetary authorities' foreign liabilities implies continued strain on the country's embattled reserves, as

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these liabilities have to be settled within a short period. The extensive borrowings to meet foreign debt, interest and dividend commitments underlines the need for continued tight monetary policies which Reserve Bank Governor Chris Stals has vowed to maintain deep into next year. According to the IMF, SA's reserves (excluding gold) were only \$663m at the end of July.

The IMF also provides figures on unexplained capital outflows. Dubbed the "black hole" by SA economist Edward Osborn, the country's errors and omissions on the capital account of the balance of payments continue sharply negative. The IMF's figures show these outflows were more than R1bn last year. Although many countries have large errors and omissions flows, they are often positive, representing an unexplained inflow of capital. But in SA's case, the figures since 1982 show a consistent outflow of capital under errors and omissions, representing an unexplained drain on the balance of payments and giving rise to speculation that this might be continued capital flight.

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Policymakers⁽¹⁵⁶⁾ voice qualified note of optimism

WASHINGTON — The world's leading economic policymakers yesterday predicted an eighth straight year of global growth, but saw some problems: an unruly dollar, big trade imbalances among nations and a heavily indebted Third World.

Although economic growth would slow this year and next, a world recession looked unlikely, the International Monetary Fund (IMF) said in its semi-annual review.

"Staff projections envisage a continuation of the recovery that began late in 1982, one of the longest on record," said the IMF *Star 25/9/89*

It forecast that the global economy would grow about three percent both this year and next after expanding by four percent in 1988.

The Group of 10 — Belgium, Britain, Canada, France, Italy, Japan, Holland, Sweden, the US and West Germany, plus Switzerland — said they too were optimistic, provided inflation could be kept in check — Sapa-Reuter

JP Morgan delivers a bleak message to Third World debtors

NEW YORK — JP Morgan's painful decision to add \$2 billion to its reserve cushion against loan losses is bad news for Third World nations in debt, analysts say.

Morgan, America's third largest banking company, late last week cited intensifying political and economic problems in debtor nations as it announced that the addition to its reserves would result in a \$1.8 billion loss in its current quarter.

Chase Manhattan and Manufacturers Hanover announced similar steps earlier in the week, but Morgan's was the most drastic.

It boosted its reserves to 100 percent of its medium- and long-term loans to developing countries, more than double the reserve fraction established by the others.

Morgan's action could complicate talks on debt-reduction plans that are part of the annual meetings in Washington of the World Bank and International Monetary Fund.

Delegates from 152 nations began arriving for the talks last week.

Morgan and other big banks that have begun fac-

ing up to the likelihood of huge losses on loans to developing countries are unlikely to resume large-scale lending to those nations for many years, analysts say.

"Bankers do have short memories," says Stephen Bernman, an analyst at Country Securities USA in New York.

Morgan, the parent of Morgan Guaranty Trust, said it would continue doing business in developing countries, but would focus on merchant banking rather than general lending.

Merchant banking involves providing advice, trading and investing, and finance.

"We will continue to consider lending in appropriate specific transactions. We intend to continue to play a constructive role in developing countries," Morgan spokeswoman Kathleen Baum said.

The talks in Washington concern US Treasury Secretary Nicholas Brady's plan to relieve the \$1.3 trillion Third World debt through debt forgiveness rather than new lending.

Some banks are concerned that the Brady plan may have caused debtor nations to lose their sense of urgency about keeping up on their loan payments.

Morgan said debtor nations seemed to have overestimated how much help was forthcoming from the industrial nations.

"We are very concerned about debtor countries' rising expectations of the magnitude of debt reduction possible under the Brady initiative," said Lewis T. Preston, Morgan's chairman.

The Treasury Department said Morgan's increase in reserves was not a direct result of the Brady plan.

It said banks would actually need lower reserves under the plan, since they would be scratching some shaky loans off their books.

But analysts say the Brady plan is forcing bankers to acknowledge the depth of their troubles in developing countries.

They are responding by doing everything possible to extricate themselves.

Morgan's financial strength has allowed it to cleanse its books more completely than Chase or Manufacturers Hanover.

It means the company will not suffer any further losses, even if developing countries don't pay another cent on their medium- and long-term loans.

"Some banks just want out," Mr. Bernman says.

"Early on in this process everybody sort of pulled together, following the lead of Citibank."

"Everybody is sort of cutting and running now and pursuing their own interests."

Morgan now has a total of \$3 billion in loan-loss reserves, with \$2.8 billion of that unofficially allocated to loans to developing countries.

That \$2.8 billion is equal to 70 percent of Morgan's total loans to developing countries and to 100 percent of the medium- and long-term loans to those nations.

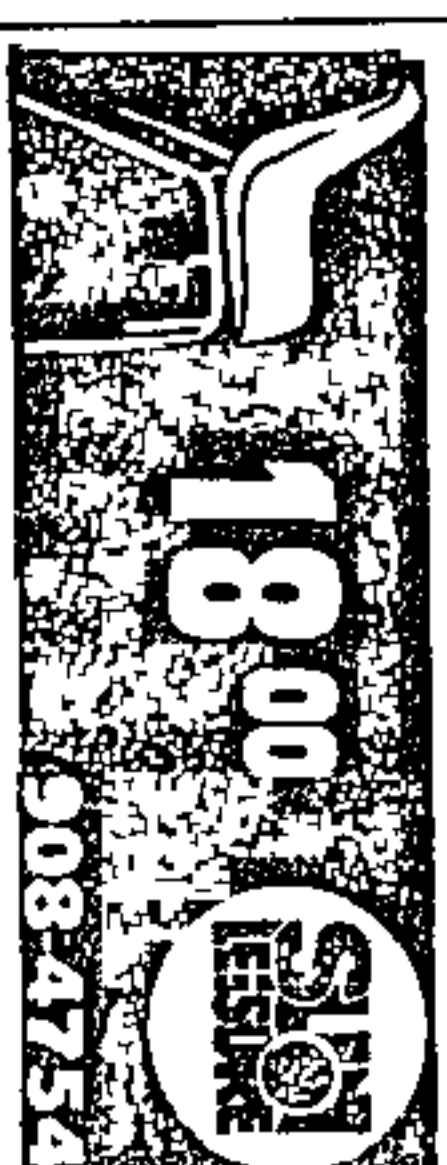
In an indication of Morgan's strong finances, Moody's Investors Services and Standard and Poor last week both confirmed their investment-grade ratings on Morgan senior debt.

The last big round of adjustments to loan-loss reserves came in late 1987.

Many banking companies have not taken any action since then.

For example, Chemical Banking's loan-loss reserves equal just 28 percent of its medium- and long-term loans to developing countries.

At Chase and Manufacturers Hanover, the corresponding reserves are 46 percent and 36 percent respectively — Sapa-AP



Debt re-negotiation

810am 25/9/87

WASHINGTON — Reserve Bank Governor Chris Stals held a week of intensive talks with SA's foreign creditor banks, first in Zurich and then in New York and Washington. Stals, who was locked in meetings at the weekend said "The dialogue with banks will continue next week."

This confirms speculation that SA will use the IMF meeting as an opportunity for behind-the-scenes negotiations on its foreign debt.

The current agreement on debt inside the standstill net expires in June 1990.

Stals would not be drawn on whether any progress had been made in reaching a new agreement, saying SA was still gauging the mood of its creditors. He denied a report in the Financial

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Times last week saying he had had talks with members of the foreign banks' technical committee.

"I have held discussions with individual banks only," he said.

Extensive

The rescheduling of SA's debt continues to attract attention from anti-apartheid campaigners, and Stals acknowledged there was pressure on US banks not to convert debt caught inside the standstill net into longer-term loans outside the net.

US banks, notably Citibank and Manufacturers Hanover, have made extensive use of the facility.

Asked whether SA was trying to con-

talks in full swing

vince US banks to ignore the pressure and convert anyway, he said "We are adopting a neutral approach to the issue."

Reserve bank figures show there has been a significant shift in the maturity structure of the debt.

From July 1987 to May 31 1989, an amount of \$3.9bn was converted, in terms of the provisions of the second interim arrangements with foreign creditors, into nine-and-a-half year loans outside the net.

Largely as a result of the option, SA's short-term debt inside the standstill net dropped from about \$13.6bn in 1985 to \$9bn at the end of last year.

Further conversions should push the figure down to about \$8bn by June next year.

According to Federal Reserve fig-

ures, US banks' total exposure to SA was \$2.5bn at the end of March this year.

SA's short-term exposure to US banks has increased while longer-term debt to the US has decreased between December 1988 and March 1989.

Exposure

The figures show a drop of about \$110m in amounts maturing in over five years to \$780m and an increase of about \$100m in debt maturing in one year.

SA's main UK creditors are Barclays, Standard Chartered and National Westminster, with a combined exposure of £1.5bn.

Stals has remained optimistic that a new accord will be reached

SA's status unchanging

SA IS no longer considering
a change in its status at
the IMF and World Bank

Sources in Washington said
it was unlikely that the
world bodies would have
allowed SA to become a
recipient of aid rather
than a donor (156)

However, the source said,
this was not a setback for
the country as a change
in status had only been
considered and had not in
any way been formally
decided on

He said SA's position in the
IMF had, in fact, im-
proved over the past
year (246)

However, the country still
had to undertake signifi-
cant political reform if it
was to be fully accepted
by the world bodies
again — Sapa

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SA's credit rating ranks 53rd in world survey

WASHINGTON — SA rates 53rd in credit-worthiness on a list of 112 countries published by the prestigious financial publication Institutional Investor after a survey of major banks. SA scored 32.2-0/0 in the credit stakes which were won by Japan with 94.9-0/0 followed by Switzerland, West Germany and the US. But the country posted a modest improvement from the previous survey in March this year, when it was 55th on the list.

SA narrowly beat Venezuela (32.1-0/0), one of the major culprits in the Latin American debt crisis.

Economic measures taken in Venezuela in an

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effort to service its \$29bn of debt recently led to widespread riots and a general strike.

Unlike SA which has less foreign debt (about \$18.6bn), Venezuela has access to IMF finance and in June received \$4.7bn from the fund.

Just ahead of SA in the credit stakes is Romania (32.5-0/0), a model debtor which has succeeded in repaying all its foreign debt in just six years.

Austerity measures resulting in a major recession were needed to reduce the Eastern bloc

country's debt from \$10.5bn to zero.

Despite this sterling performance, it has not found much favour with the world's bankers which rate Czechoslovakia, Hungary and Turkey higher in the credit stakes.

Red-tape and a ban on many kinds of foreign borrowing have upset foreign bankers and explain why Rumania's payment of debt before due dates has failed to impress them.

Among SA's neighbouring countries, Mozambique fares the worst (107th on the list) while Angola, Malawi and Swaziland are in the eighties and nineties in the rankings. Zimbabwe is SA's closest competitor at 64th.

West must assist East bloc reform

WASHINGTON — Finance ministers from the world's richest nations said yesterday the West must be prepared to do everything possible to assist the political and economic reforms occurring in the Communist world.

AT THE IMF Washington

The upheaval in the Eastern bloc grabbed centre stage as the annual meetings of the 152-nation International Monetary Fund and the World Bank got under way, although more traditional global economic issues such as huge trade imbalances and Third World debt were also addressed.

Treasury Secretary Nicholas Brady said the events occurring in the Soviet Union and Eastern Europe were changing the world and were "the most significant event perhaps since the end of World War II."

Brady and British Chancellor of the Exchequer Nigel Lawson told reporters that the meetings of the so-called Group of Seven — the United States, Britain, Japan, West Germany, France, Italy and Canada — had been dominated by the discussions concerning Eastern Europe.

"What is happening in Poland and Hungary is of historic and momentous importance and the

major nations of the West must be prepared to do all we can to help them change their economies, just as they are changing their politics, from Communism to a democratic system," Lawson said.

Both Poland and Hungary are members of the IMF and World Bank, making them eligible for financial assistance. Just last week the Soviet Union said it too was applying for membership in the two international lending organizations.

Third World recovery remains doubtful

Seven years after the Third World debt crisis began, prospects for a sustained improvement in economic growth remain doubtful for many indebted developing countries, says the IMF.

In its latest World Economic Outlook, the lending body said the outlook for such countries was less favourable than for developing countries that have avoided

difficulties in repaying their foreign debt and for industrial nations.

It said the projected modest improvement suggested debt reduction in itself was no more a panacea for the difficulties of Third World debtors than new lending would be on its own.

Third World economies in general will slow this year, growing 3.25 percent following 4.25 percent growth in 1988, but would recover to expand 4.0 percent in 1990.

This year's slowdown will reflect a rise in world interest rates, the weakening of non-fuel commodity prices, slower growth in export markets and worsening inflation, which has depressed investment and economic activity and has led to tighter financial policies in many countries.

The IMF also said many heavily indebted countries had not tried hard enough to adjust, eroding business confidence and stifling private sector initiative.

Japan tries to buy itself a bigger say

Japan is finding out the hard way at current international meetings here that money can't buy everything, at least not right away.

Japanese officials said they will probably have to wait until a possible special meeting of the IMF in November to find out if their bid to buy a bigger voice in the multilateral body will be successful.

Even then, the IMF's policy-making Interim Committee is only likely to work out a framework for increasing the fund's resources, not a detailed agreement, they said.

Tokyo has demanded the number two spot at the fund behind the United States. It currently ranks fifth, coming behind the United States, Britain, West Germany and France.

An agreement on boosting the fund's capital through an increase in quotas — membership subscriptions — is essential if Japan is to buy a bigger voice for itself.

"Japan came to Washington to state clearly the need for changes in the IMF voting powers of member nations in line with their economic fundamentals," said a senior Japanese official who asked not to be identified.

But Japanese officials admit it is unlikely to get its way at the current IMF and World Bank annual meetings. — Sapa-Reuter-AP

Scepticism over Third World debt plan

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WASHINGTON — The West's top economic policymakers appear to have tamed the troublesome dollar, at least temporarily, but face mounting scepticism over their plans to tackle the Third World debt crisis.

Finance ministers of the seven leading industrial democracies gathered for the IMF and World Bank annual meeting, saw the dollar fall sharply in Far Eastern currency markets yesterday.

Traders found that the seven's communique after an eight-hour meeting on Saturday warning that the dollar was too high and promising close co-operation, meant they were prepared to sell the dollar heavily as soon as trading resumed.

Although it was early days, it appeared that the seven — the US, Japan, West Germany, Britain, France, Canada and Italy — had restored some measure of credibility to their policymaking after months during which the dollar defied their attempts to push it lower.

The dollar posed one major danger to the world economy by threatening to distort the pattern of global trade but the seven's debt strategy, pioneered by US Treasury Secretary Nicholas Brady, faced growing scepticism from developing countries and lender banks alike.

At a meeting of the IMF's policymaking Interim Committee, Brady called for a new spirit of realism over

his plan, which recognises the fact that a portion of some bank loans will never be paid back. Brady said his plan was sound but warned that "excessive expectations can only promote delays, increase the risk of a breakdown in negotiations and ultimately raise the economic costs both to the banks and debtor countries".

The plan has already been implemented for Mexico and the Philippines but has run into heavy criticism from US banks claiming it has made debtor nations even less willing to replay what they owe.

The chairman of West Germany's Commerzbank, Walter Seip, went further, saying a new approach should be found — Sapa-Reuter.



President George Bush rounded off his weekend by jogging at his country estate at Kennebunkport in Maine at dawn yesterday. Later in the day he went to New York to address the UN. Picture: REUTER

Bl Day 26/9/89
\$89bn missing from the world's current account, says IMF

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(156)

WASHINGTON — The IMF's balance of payments (BoP) statistics clearly illustrate the old saying "lies, damn lies and statistics".

Figures show the world current account balance is in deficit \$89bn. Short of trading with Mars, this is inexplicable, as all the deficits and surpluses of countries' current accounts should add up to zero.

But they don't, to the exasperation of the IMF, which has set up a special task force to investigate this phenomenon. It makes for difficulties in evaluating imbalances, the IMF says in its World Economic Outlook.

The IMF's economists found the problem was the under-reporting of investment income.

It is taking steps to adjust its accounts and projections to take account of this factor and says economists might have to develop a more detailed and consistent treatment of the main transactions within each country's services accounts.

The services account, or invisibles, with the trade balance makes up the current account of the BoP.

Another problem in BoP analyses are the large statistical discrepancies in the BoP accounts of many countries, described as "errors and omissions," representing unexplained outflows or inflows.

SA is one such country with a huge errors and omissions item: more than R1bn in unexplained outflows in 1988. The fund says "Efforts to improve the reporting of external claims and liabilities would greatly facilitate the analysis of international developments and prospects."

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More credit, more rules

WASHINGTON — Finance ministers of member countries of the 152-nation IMF have agreed to work out an plan by the end of this year to expand IMF credit, the IMF policy-making Interim Committee said yesterday.

However, committee chairman Onno Ruding said even if a tentative agreement on expanding the IMF's resources through member country quota increases was completed by December 31, it would still take up to two years for the US and other countries to get parliamentary approval.

Ruding said "That's why we are saying we need to hurry up the process."

He and IMF MD Michel Camdessus said the committee had approved a new three-step "guideline" for dealing with overdue loan payments by member countries.

Firstly, it would try a "co-operative" approach, then more drastic "remedial" measures would be taken, such as barring reluctant debtor nations from participating in the IMF's quota increases.

Finally they would be ejected from the IMF — AP-DJ.

B/Dam 26/9/89.

Own Correspondent

WASHINGTON — By a quirk of fate, the joint annual meeting of the World Bank and the IMF coincides with the height of the forest-burning season on the Amazon — the same week last year when the space shuttle Discovery revealed a 960 km-wide smoke blanket stretching from Brazil's east coast to the Andes.

It looks doubtful if the West's finance ministers, the commercial banks, or the Third World debtors who are gathered to air their grievances in Washington will make any, but the most plaudinous attempt to link the problems of Third World debt and environmental issues.

Yet, a conviction is growing, even in high places, that some kind of deal will soon have to be struck, which would

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IMF CONFERENCE

Greening Third World debt

include, writing off, the poor south's debt in exchange for the environmental clean-up now demanded by the voters of the north.

To put the problem starkly, the rich nations are calling for developing countries to halt the destruction of the forests, close the hole in the ozone layer and so on, at a time when the South is becoming more impoverished and less able to do so.

The World Bank and the IMF have long been blamed by both the free-market right and the environmentalists for white-elephant projects and loans with unplanned-for destructive effects.

Now the bank's first "green" president, Barber Conable, is making pre-

emptive strikes on environmental opinion. Last week in Tokyo, Conable offered \$13bn in loans and credits for environmental projects in developing countries. Developed countries, he warned, could not go on despoiling the world.

One of the more adventurous proposals with which the World Bank and the US Treasury are being lobbied is that the bank should be given the new task of buying up Third World debt in return for forest protection and other "sustainable development" policies.

They are being put forward by former banker Karl Ziegler, who is also associated with Sir James Goldsmith's debt-for-nature swap proposals.

The idea of debt-for-nature swaps is

not new, but the packages are getting more sophisticated. Their attractiveness rests on the reality that much of the money lent in the 1970s will never be repaid.

Previous debt-for-nature swaps, like that agreed to protect a national park in Costa Rica earlier this year, have involved conservation agencies and sums of only around \$10m. But huge deals are theoretically possible.

But Goldsmith's plan drew an angry reaction from countries like Brazil, which saw it as an attack on national sovereignty, an attempt by the gringos to annex the rainforest. Other, debt-ridden countries were not interested in it either.

The more elaborate "debt-for-sustainable development" concocted by Ziegler offers debt-swaps for a more catholic range of projects, such as clearing up the sewage problems of Sao Paulo and strengthening law enforcement in the Amazon, as well as forest protection.

The plan's merits for the north are that it can be exported to the Mexicans, the Filipinos and Indonesians, whose own forests have already been damaged or nearly destroyed. The advantage for politicians in developing countries such as Brazil is that it would give them something to offer their electorate.

Now that the pressure is on world leaders to draw up their own action plan to prevent climatic change, the time has come for these ideas to be discussed in the mainstream of international financial affairs. — Daily Telegraph

Financial leaders express approval at dollar's fall

WASHINGTON — The dollar tumbled around the world on Monday as the Federal Reserve, Bank of Japan, West German Bundesbank and other central banks intervened with successive bouts of dollar-selling in Tokyo, London and New York currency markets.

Officials attending the IMF meetings here expressed satisfaction with the results of the intervention.

The dramatic intervention followed a weekend statement by the Group of Seven (G-7) industrial countries expressing displeasure with the dollar's strength and fear that its rise in recent months could blunt improvement in the US trade deficit.



By the end of trading in New York on Monday, a dollar bought 142 Japanese yen and DM1,90, down sharply from 146 yen and DM1,95 on Friday, before the G-7 meeting.

Economists said the dollar's decline was sparked less by the intervention and more by the fear that central banks would follow up with changes in interest rates. A rise in Japanese and West German interest rates and a decline in US rates would make dollar-denominated investments less attractive.

Also on Monday, US Treasury Secretary Nicholas Brady pushed for expansion of his Third World debt strategy, announced in March, which has so far produced tentative agreements between creditor banks and Mexico and the Philippines.

He told the World Bank's development committee it had to push ahead to ensure the benefits of the strategy reached a broad range of countries.

□ William Ryrie, executive vice-president of the International Finance Corporation, an arm of the World Bank, has offered Polish Finance Minister Leszek Balcerowicz help in setting up a new financial system — Sapa-AP.

Commercial banks urged to help ease plight of debtor nations

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WASHINGTON — International Monetary Fund (IMF) managing director Michel Camdessus yesterday called on commercial banks to help make a success of the strategy for easing the Third World's massive debt crisis

In an address to the opening session of the IMF and World Bank annual joint meeting, Mr Camdessus warned that continuing budget deficits threatened world economic stability

Supporting the initiative unveiled in March by US Treasury Secretary Nicholas Brady to tackle the debt crisis, Mr Camdessus said banks needed to reaffirm a commitment to new lending to less-developed countries.

"The banks should not think that reticence on their part will lead to a larger contribution from multilateral organisations," he said

Several large US banks were in-

creasing reserves to protect against losses on loans, sparking widespread expectations that banks would withdraw from new lending

Mr Camdessus defended IMF and World Bank loans to debtor countries that help them guarantee repayment, but he warned them against excessive expectations "Debt reduction is not a cure-all," he said.

He praised Latin American, African and some Eastern European countries for what he called a silent revolution — structural reforms and steps to encourage foreign investment

He said banks should help consolidate such opportunities, particularly growth-oriented programmes such as Mexico's, which led to capital repatriation and increased investment. — Sapa-Reuter.

SA press kept out of briefings

WASHINGTON — South African officials are holding conferences for foreign journalists from which South African press representatives are excluded. *SA 27/9/87*

Reserve Bank Governor Dr Chris Stals called a meeting on Monday of foreign journalists, while Finance Minister Barend du Plessis is to hold a similar meeting today.

A spokesman for Mr Du Plessis's office confirmed that the meeting was scheduled, but could not explain why South African journalists had been excluded

Third World debts: Will interest exceed principal?

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WASHINGTON — The principal issue facing the International Monetary Fund and World Bank, as so often in the past, revolves around helping the Third World to meet at least part of its debt obligations, feed its starving masses and avert the social unrest that almost invariably results from the adoption of prudent economic policies.

To some extent, unlike in the past, the so-called lesser-developed countries (LDCs) are at least making some headway.

Debt rescheduling and debt forgiveness is becoming increasingly widespread, while IMF chief Mr Michel Camdessus has come out strongly in favour of doubling IMF quotas with a view to making a contribution towards solving global economic imbalances.

Problem is, many of the theories have yet to be put into practice and, judging from the First World's failure to reach consensus on solutions to the problem, few of the theories will ever materialise.

Thus, Britain and West Germany are at odds on how to help Poland cope with its \$35 billion in foreign debts, and the United States is opposed to increases in IMF quotas while the Gramm-Rudman Deficit Reduction Act remains in force.

Japan, too, is throwing its spanner into the works by seeking recognition of its role as the world's



By JOHN SPIRA,
Head of The Star's Finance Department
As the 1989 IMF/World Bank meetings get into full swing, the issues at stake are becoming increasingly clear cut, their solutions increasingly elusive

strongest economic power and biggest creditor nation.

Without a greater share in the power-broking, Japan will be reluctant to provide more funds.

Central to all the bickering is the now famous (some say infamous) "Brady plan", the brainchild of the US Treasury Secretary Mr Nicholas Brady, who, on March 10, advocated debt forgiveness by creditor banks throughout the world as a means of bailing the Third World out of its woes.

Torn to shreds

Popular though the initiative has been among the LDCs, it has been torn to shreds in the past couple of days by bankers and First World creditors alike, who have used the Washington platform to broadcast their strong objections to the fact that Mr Brady is simply "offering forgiveness on obligations which he doesn't own".

The European banks view the Brady initiative as more a knee-jerk reaction to the US government's own geo-political ambitions

than a careful study on easing the debt crisis.

On Sunday, Mr Walter Seipp, chairman of the managing board of Germany's Commerzbank, savaged the Brady plan by pointing out that debt forgiveness on the scale that has been discussed does not restore the countries' credit standing.

"Unless such action is tied to radical improvements in the underlying economic conditions, all that is gained is at best a little time."

"The suggestion that the commercial banks alone should forego the claims that they hold must be rejected. Latin American states possess assets abroad of more than \$327 billion — equal to the greater part of their external debt."

It's very difficult to convince creditors to forgive loans when the debtors have such a large amount of capital invested abroad.

Yet despite all the criticism, Mr Brady is given some credit for having made at least a modicum of progress.

Six months after the initiative was launched, deals with Mexico and the Philippines were agreed in

principle, with the IMF, the World Bank and Japan promising to provide funds for debt reductions or buybacks.

Ironically, the debt reduction programme could become stalled by the very countries it intends to help.

First World creditors are reported to have been outraged by the tone of the communique issued by the Group of 24 (comprising mainly the LDC countries) after their meeting on the weekend.

The G24 demanded more debt aid from the rich countries, stated that the debt reduction initiative had not gone far enough, and insisted that any IMF quota increase should not lead to a reduction in the voting powers of the LDCs.

Accordingly, while there is a small measure of consensus on debt reduction — simply because there is nothing else on offer — the schism between the First and Third Worlds remains as wide as ever.

A small number of LDCs are showing signs of benefiting from IMF-inspired economic austerity programmes and in the process are making marginal inroads into mountainous debt burdens.

Drop in ocean

And much is being made of such progress at the gatherings here this week. Yet if the truth be told, such achievements cannot, in all charity, be labelled as more than a minuscule drop in the debt ocean.

The optimists are hoping that the drop will expand into a wave, the pragmatists point out that until the affluent West agrees to wipe the slate clean — and there's no good reason to believe that it will — no meaningful progress will be achieved.

For all the lofty ideals and intentions, the rich will continue getting richer and the poor poorer.

That the problem is, in reality, insoluble, can be gauged by a calculation emerging from the Mexican liquidity crisis.

The calculation shows that for loans rescheduled out to 20 or 30 years, the interest payments are all that is important. The principal comes to only about 5 percent of the interest payable!

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Pressure building up for tighter financial sanctions

WASHINGTON — The Archbishop Tutu-inspired anti-apartheid campaign for co-ordinated financial sanctions against South Africa is given prominence in the *Institutional Investor*, an IMF/World Bank publication released this week.

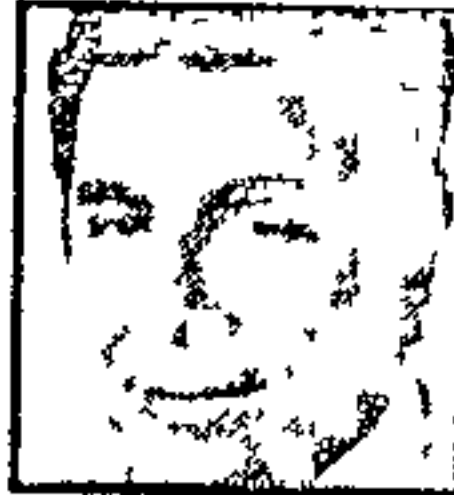
Under the headline, "Banks Pressed for Tighter Sanctions Against South Africa", the publication points out that the effort is specifically aimed at European and North American commercial banks that face a June 1990 deadline for completing a new repayment schedule for \$8 billion in South African loans falling due next year and in 1991.

Seventeen percent — \$1.6 billion — is owed to US banks, including Citibank, Chase Manhattan, Morgan Guarantee Trust and Manufacturers Hanover.

According to *Institutional Investor* "The anti-apartheid movement wants the banks to apply the most stringent terms, including maximum interest rates, a denial of new loans and trade credits and refusal of South African requests to extend payments over 10 years."

The IMF

JOHN SPIRA



The publication speculates that action could come soon on several fronts.

"Commonwealth leaders, meeting in Kuala Lumpur next month, will be asked to approve financial sanctions already endorsed by a foreign ministers' committee that included representatives from Canada and Australia, but not Britain.

"In the US, a legislative working group has been considering similar measures as a supplement to the 1986 sanctions law."

Institutional Investor says the House of Representatives banking committee, still hoping for a Bill that would gain Republican support, views a prohibition on US bank participation in a generous rescheduling as a test of the Bush administration's pledge to move beyond the "generally discredited constructive engagement policy of

the Reagan years."

However, the publication suggests that anti-apartheid groups believe public opinion has shifted in their direction and they are stepping up their campaign against British, French, West German and Swiss banks.

It is acknowledged that US banks are bitterly opposed to more sanctions, but are nonetheless feeling the heat.

Institutional Investor recognises that if the need for international capital is the Achilles Heel of the South African economy, as anti-apartheid activists believe, fear of provoking a loan default acts as a similar constraint on congressional action.

During banking committee hearings last month, Treasury officials argued that the leverage — far from being with US banks — actually lay with South Africa.

They argued that existing sanctions were working — that the South African economy was being squeezed — and that compelling US banks to walk away from their claims would let South Africa off the hook, while giving competitive advantages to European banks.

Commercial banks urged to tighten sanctions

SA's permanent representative at the IMF, Elias Links, admits it is a lonely job.

Unlike other countries, SA is not part of a group, such as the group of 24, and has to fight its battles on its own. Links is the man who fights those battles for SA from a position created in the early '70s when the country lost its friends.

SA used to be part of the Australian group, but when that country no longer wanted to be associated with us, it was SA which became an island.

"The fund found itself in a position where a founder member, which was financially in good standing, had no home. A new dispensation had to be created," Links said in an interview.

The former University of the Western Cape economics professor says the only other permanent IMF representatives are the executive directors. Countries combine their voting power and the group then shares an executive director. But SA's position is an anomaly, and Links is at pains to stress his status at the fund must in no way be confused with that of the executive directors. His presence is a direct result of SA's isolation.

SA's only power in the fund is the voting right of its member of the board of governors, the Minister of Finance. But that vote counts for

only about 1% and meaningless when not combined with those of other countries.

In exercising that vote, SA has tried not to rock the boat. Its decision to support a substantial increase in members' quotas — or the fund's capitalisation — is in line with the views of other developing countries. SA supported Angola's IMF membership of the bank and fund and is also in favour of Namibian membership after independence.

SA finds itself excluded from the intense debate on the IMF's role in the world economy. Originally created in 1947 to smooth out balance of payments imbalances, the fund is now focusing more on longer term policy issues, or "structural adjustment", with strong emphasis on the Third World. Its role and that of the World Bank are becoming increasingly blurred, causing some powerful fund members to call for a return to its original role.

Critics include US Treasury Secretary Nicholas Brady, his Dutch counterpart and IMF interim committee chairman Onno Ruding, and Bundesbank president Karl-Otto Poehl.

SA's lonely man at

By Day 27/19/89

GRETA STEYN
in Washington

"The IMF was established not as a development agency but as a fund to help countries with temporary balance of payments problems," Poehl said this week.

Although excluded from the debate, Links has strong views on the IMF's changing role. "It does not make sense for the fund simply to concentrate on short-term stabilisation when balance of payments problems arise. It is no use implementing stabilisation policies when there are structural faults in an economy."

The IMF has been at pains to point out these structural problems, not only in the developing world, but also in the major industrial countries. Where rigidities in labour markets exist, or on protectionism, or price control, the IMF makes its voice heard. It makes its finance conditional on the implementation of structural adjustment programmes. These have in many cases resulted in hardships, sparking criticism and accusa-

the IMF

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tions of harshness. The riots in Venezuela this year were blamed on the fund, and Time magazine dubbed it "the top cop of global finance".

SA, with no access to IMF finance, is not forced to implement any of the IMF's suggestions for structural adjustment. But Links believes the fund's advice is invaluable. He sees it as a "top cop" of the market mechanism, ferreting out structural problems that inhibit the efficient allocation of resources via the price mechanism. Examples of structural problems in SA include the immobility of labour resulting from the Group Areas Act, and price control by agricultural control boards.

The IMF technical missions to give assistance on issues such as tax form part of its focus on structural factors.

In SA's case, a technical mission provided important insights into the implementation of value added tax. The fund also provides advice on central banking and general banking supervision. On short-term stabilisation policy, the fund is also valuable to SA, although it gives no finance. Its economists assess the SA eco-

nomy (and every other member's) every year and provide the IMF board with a detailed report on the state of the economy and the current fiscal and monetary policies. It does not hesitate to criticise, but members are entitled to a response.

"The fund's assessment of our economy gives other countries an objective insight into SA," says Links.

At the moment, the fund is not too worried about the SA economy. It is happy with Reserve Bank Governor Chris Stals's pledge to keep interest rates positive in real terms. "But on the fiscal policy side, government's use of long-term loans to finance current spending is criticised."

Links is adamant SA's continued membership of the IMF is essential. Not only are there practical examples that the "top cop" is needed, but there is also the question of breaking out of isolation.

"Even though talking will not allow us back in, it makes our life easier," he says.

Links does a lot of talking in Washington, and his wife, Yolanda, takes an active part in the "spouses' club". They enjoy the life, says Links, who has been in the post for more than two years. But now he would like to go back home to contribute to SA's "structural adjustment".

REVIEWS

Bank urges cut in defence spending

B/Dew 28/9/89

WASHINGTON — World Bank President Barber Conable said on Tuesday the new spirit of East-West détente sweeping through world politics opened up the way for a decade of prosperity and growth.

But he warned that it would be impossible to improve the quality of life unless rich and poor nations cut huge military spending and did more to protect the environment.

"As we begin the new decade, the potential for progress is great," Conable said in a speech to the opening session of the annual World Bank and IMF meeting.

"The political and ideological forces which have polarised the world for half a century are diminishing."

But he said poor nations were spending \$200bn a year on arms. Military budgets

in the mid-1980s outstripped spending on health and education combined and were often a prime reason for large foreign debts.

"All countries have the sovereign right and responsibility to defend themselves," Conable said. "But let us hope that in the changing political climate of the 1990s, resources are increasingly allocated to more productive purposes."

Pressures

Developing nations had to adopt sound policies and turn their back on "white elephant projects in industry" and stop diverting scarce resources to luxuries for select groups.

The 1980s, Conable said, had been a painful decade for many developing na-

tions in Latin America and Africa but a new recognition of the pressures that bind countries together and desire for peace augured well for the next decade.

Conable said the World Bank's challenge was to improve the quality of life for hundreds of millions of poor worldwide, overcome stagnation in Africa, poverty in Asia and move beyond the \$400bn debt paralysis of Latin America.

He said international co-operation was essential to reduce the dangers of global warming but industrial nations had to bear the brunt of responsibility since they accounted for 75% of all carbon dioxide emissions.

The bank is planning to lend \$1.3bn over the next few years for projects to protect the environment.

Half of all projects in the past year contained specific components aimed at the environment.

But Conable said the Third World's \$1.3-trillion debt burden represented a major obstacle to development, adding "We are far from the end of the debt crisis."

He said the Brady Plan, named after US Treasury Secretary Nicholas Brady and concentrating on debt reduction, was a major breakthrough but new solutions continued to be needed for each individual country.

Conable called for more support from the industrial world for the bank's soft loan agency, the International Development Association, and urged donor nations to agree an increase in its resources that at least kept pace with inflation.

"Anything less would let down hundreds of millions of people living in conditions of squalor," he said — Sapa-Reuter.

West urged to act on inflation, savings and use of resources

WASHINGTON — Michel Camdessus, managing director of the International Monetary Fund, yesterday dished out economic policy guidelines which South African authorities would do well to heed.

Referring to the world's industrial countries, he contended that they could consolidate their recent strong performances and extend these gains if they acted firmly on three fronts

- They must bring inflation down further, so that it ceases to be a threat to stable growth
- They must raise national savings rates
- They must use resources more efficiently

While there is a general perception that inflation in industrial countries has been controlled, Mr Camdessus warned that price pressures had re-emerged.

"One of the important lessons of our experience over the past two decades is that governments must confront inflationary pressures decisively and at an early stage."

He said budget deficits remained large in many countries, absorbing

resources that should be used to finance productive investment.

"Fiscal deficits place a heavy burden on monetary policy, causing an unduly high level of real interest rates. This hinders investment, aggravates the debt problem and jeopardises growth prospects in both industrial and developing countries."

Mr Camdessus urged governments to reduce their fiscal imbalances promptly.

"This task is particularly urgent in the US, where the private savings rate is now very low."

New challenges

"Low national savings rates in many countries are worrisome, when we consider the new challenges that the industrial countries must confront over the next few decades. A progressive ageing of populations will most likely be accompanied by a substantial drop in private savings and a steep increase in the demands placed on national health and pension systems."

He stressed that fiscal consolidation was the essential first step in any credible policy to improve

the long-term performance of saving and investment.

"With sound fiscal and monetary policies, governments will have the resources and the environment of stability and confidence that are essential for sustained growth."

"But even with the best macroeconomic policies, growth will be disappointing if we do not use resources efficiently."

"This means we must simplify the complex network of controls and restrictions so that they do not distort private decisions, limit competition and undermine the incentive to work, save and invest."

While welcoming the initiative on debt reduction, Mr Camdessus stressed that debt reduction was not a cure-all.

He said a special effort was required to assist sub-Saharan Africa.

"There will be no easy solutions, no miracle cures. We need a long-lasting commitment by all participants to produce major and sustained progress."

"Fortunately, there has recently been progress and more hopeful signs," he said.

T USED to be said that if one Swiss banker saw another jump out of a window, he would instinctively follow as there was sure to be money to be made on the way down. Apocryphal the story may be, but experience shows that limiting it to the Swiss is misleading.

At the annual meetings of the International Monetary Fund and World Bank in Washington this week there were uncanny signs that the herd instinct — perhaps lemming instinct — would be more appropriate among bankers than not diminished. The outcome could be worrying.

The irony is that international banks have never before had at their disposal as many skills or as much information about customers, potential customers and the economies in which they operate. Yet, despite all that, one after another of these banks has become entangled in the \$1.3-trillion of doubtful Third World debt that might never be repaid.

The mystery is that having witnessed the political depredations of governments in South America and Africa that had relatively recently emerged from colonial rule, the banks seemed to think that their economic policies would somehow be more enlightened. Maybe avarice is blind at times to risk assessment.

What emerged in Washington this week was that, having turned their backs on the indigent Third World, the bankers are about to rush their loan officers into liberalising eastern Europe.

The burning question, of course, is whether the banks will in 1998 be shovelling into reserves once again the billions that Third World doubtful debts are costing their shareholders now. Indeed, the enlarged Third

World debt provisions that three large American banks announced last week, the latest in a long line of similar bank provisions, suggest that the lemming instinct has not been retarded. They follow each other in and are following each other out.

Bankers themselves deny that these provisions necessarily mean a withdrawal from the Third World. But the borrowers believe otherwise. Brazilian newspaper headlines screamed this week, after leading American bank J P Morgan had put an additional \$2bn into debt provision: "Morgan is telling us to go to hell."

The reason for the banks' impatience with the Third World is not entirely to do with an inability or unwillingness to repay.

The banks themselves have stars

in their eyes over eastern Europe, the Iron Curtain colonies whose economic deprivation just about matches that of the Third World, whose economic prospects were very different a few decades ago when the banks moved in.

They were still enjoying some of the benefits of sensible colonial rule, especially market orientated economies.

World commodity prices on which they became increasingly dependant were buoyant. They had little debt. And aid flows were substantial.

All this changed during the late '70s and early '80s. And Third World governments avoided the hardship of economic adjustment to these less

affluent circumstances by fixing prices unrealistically, impeding the mobility of resources and getting deeper into debt. And the banks, despite this, continued to lend. Eastern Europe today has none of the early advantages enjoyed — and subsequently squandered — by the Third World. It has at best only a semblance of a market economy. Both prices and outputs are administered haphazardly, thereby giving no reliable indication of supply capability. And it starts out with an already taxing debt burden.

In short, despite having achieved a democratic government, it has still to pay the price of economic adjustment to reducing circumstances that the communist overlords tried to mask behind rationing and subsidies. Western governments, and the aid

Once-bitten banks now starry-eyed over eastern Europe

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NIGEL BRUCE, editor of the Financial Mail, filed this special report for Business Day from the IMF meeting in Washington

agencies, fear that if the unavoidable pain of adjustment is not ameliorated by some financial underpinning of the liberalisation process, it could be aborted — at substantial loss to the West in prestige and trade.

So the International Finance Corporation, the aid affiliate of the World Bank, is ready with offers of joint ventures, privatisation efforts, the development of a capital market and so forth. Indeed, from what the IFC's Sir William Rytie told bankers here this week about the enormity of the problem, bankers should — and notwithstanding — be viewing eastern Europe with the greatest circumspection. But their enthusiasm is not diminished.

These are their reasons:

The eastern European economic situation is so bad that it cannot get much worse. So substantial recovery is in prospect.

Recovery will be underpinned by the existing skills and traditions of a workforce that is reliable, hardworking and which will respond to a profit motive.

The economies and opportunities of enlarging the Common Market to include eastern Europe, especially after the 1992 economic liberalisation, could create a trading bloc with the ability and wherewithal to rival the US and Japan.

Put that way, the prospects could be attractive. Comparison with the Third World is only partially appropriate. The risk, on the other hand, if it should not come off, could dwarf the banks' losses in the Third World. But if the Third World's experience of fickle bankers is anything to go by — as well as SA's in 1985 — the international banks are not about to forgo either their lemming instincts or eastern Europe.

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The IMF

JOHN SPIRA



Shunned, but SA still makes the news

WASHINGTON — South Africa might be studiously shunned in the official IMF/World Bank corridors but it is receiving a high level of unofficial exposure in the international organisation's information bulletins.

Yesterday morning, in a publication entitled *Annual Meeting News*, Reserve Bank Governor Dr Chris Stals is quoted as saying "South Africa is not going to change its political situation for \$8 billion".

The report is accompanied by the following comment from "one banker": "No one wants to be seen negotiating with South Africa, or even holding South African paper, it's the financial equivalent of being HIV-positive".

Annual Meeting News says that Dr Stals's remarks were in response to reports that increasing pressure from anti-apartheid stockholders and customers could derail his government's attempt to negotiate a new repayment deal on its standstill debt.

Tougher sanctions

It adds "Neither does Stals appear fazed by Commonwealth financial ministers calls for tougher financial sanctions".

Says Dr Stals "The bankers will make their decision on the strength of the South African economy — we don't negotiate politics with them".

The publication says that Dr Stals, who has been using the IMF/World Bank conference to hold talks with South Africa's creditor banks, is confident he can fix the repayment deal before the deadline next June.

"If the banks push for what his government regards as unreasonable terms, South Africa will again fix a payment schedule unilaterally."

Apparently, banks see this as the most likely outcome of the current discussion, with many banks pressing for some form of exit bonds as a way of being seen to get out of South Africa.

The IMF/World Bank meetings are seen as providing a unique forum for South Africa's Annual Meeting News.

quotes "It is about the last international institution we're allowed into. But we are allowed in only on the understanding that we don't play an active role".

South Africa has never borrowed from the World Bank and in 1987 made payments of some \$500 million in the last of its instalments on an IMF standby credit.

Regional co-operation of utmost importance, says 'low key' Barend

By John Spira
Head of The Star's
Finance Department

WASHINGTON — In what was clearly intended as a low-key exercise, Minister of Finance Mr Barend du Plessis made only fleeting reference to South Africa's economic problems in his address to the International Monetary Fund/World Bank gathering here yesterday.

He reconfirmed South Africa's identity with the aspirations and development needs of sub-Saharan Africa, saying that "within our means we stand ready to actively render support where possible".

He told a relatively well-attended meeting that regional co-operation with a view to optimising economic growth was of the utmost importance, since small internal markets and low purchasing power were barriers to international competitiveness in many of the countries in the region.

"Regional co-operation offers opportunities for the smaller countries to derive substantial benefit from economies of scale, avoiding unnecessary duplication and improving their competitive position."

"Access to well-developed facilities such as transport, communications and financial markets in more fortunately endowed neighbouring countries is likely to contribute to an acceleration of economic progress in individual countries, thus synergistically contributing to enhanced prosperity in a regional context," he said.

Adjustment

In a lone and oblique reference to South Africa's foreign debt obligations, Mr du Plessis said. "For a country to extricate itself from an international debt servicing problem is, as we have learnt at first hand, a traumatic and painful adjustment process."

"The greater involvement of the fund and the World Bank in providing assistance to these countries should therefore be encouraged."

"Confidence in the ability of a country with a debt service problem to absorb new foreign capital will not be restored through debt forgiveness but rather through the successes achieved with the restructuring of its basic economy."

Making another oblique reference to South Africa's lack of capital, Mr du Plessis suggested that successful adjustment programmes entailed the development not only of infrastructure but also of human resources. "We understand, too, the need for basic facilities in order to be able to utilise the sophisticated educational aids capable of supporting the educational process, both quantitatively and qualitatively," he said.

Mr du Plessis expressed South Africa's support for increased IMF quotas, for efforts at easing the debt burden on African economies and for the World Bank's stress on environmental issues.

Unlike his previous addresses to the IMF/World Bank, Mr du Plessis made no reference to the performance of the South African economy against the background of sanctions, nor did he compare South Africa's financial ratios with those of other developing nations.

The conclusion to be drawn from this strategy is that the South African authorities now prefer to do their lobbying behind the scenes rather than in a public forum.

It is, however, worth noting that the IMF/World Bank platform is one of the few international forums open to South Africa to put its case to the rest of the world.

US views on SA have 'improved dramatically'

From JOHN SPIRA of the Argus Foreign Service in Washington

AMERICAN perceptions of South Africa have improved dramatically since Mr F W de Klerk assumed leadership of the nation

This was the message conveyed to me by Minister of Finance Mr Barend du Plessis after he addressed the IMF/World Bank meeting here yesterday

He said that many of the Americans to whom he'd spoken during the past few days had unsolicitedly mentioned that they'd been "very impressed" with Mr De Klerk's plans for South Africa's future

"There is, however, the understandable corollary that he has still to transfer words into deeds" Mr Du Plessis had also detected a slightly more positive shift in the stance of the US Congress towards South Africa

On the score of the economy's structural adjustment, Mr Du Plessis pointed out that South Africa had survived for four years without an international banker

"That's quite some structural adjustment"

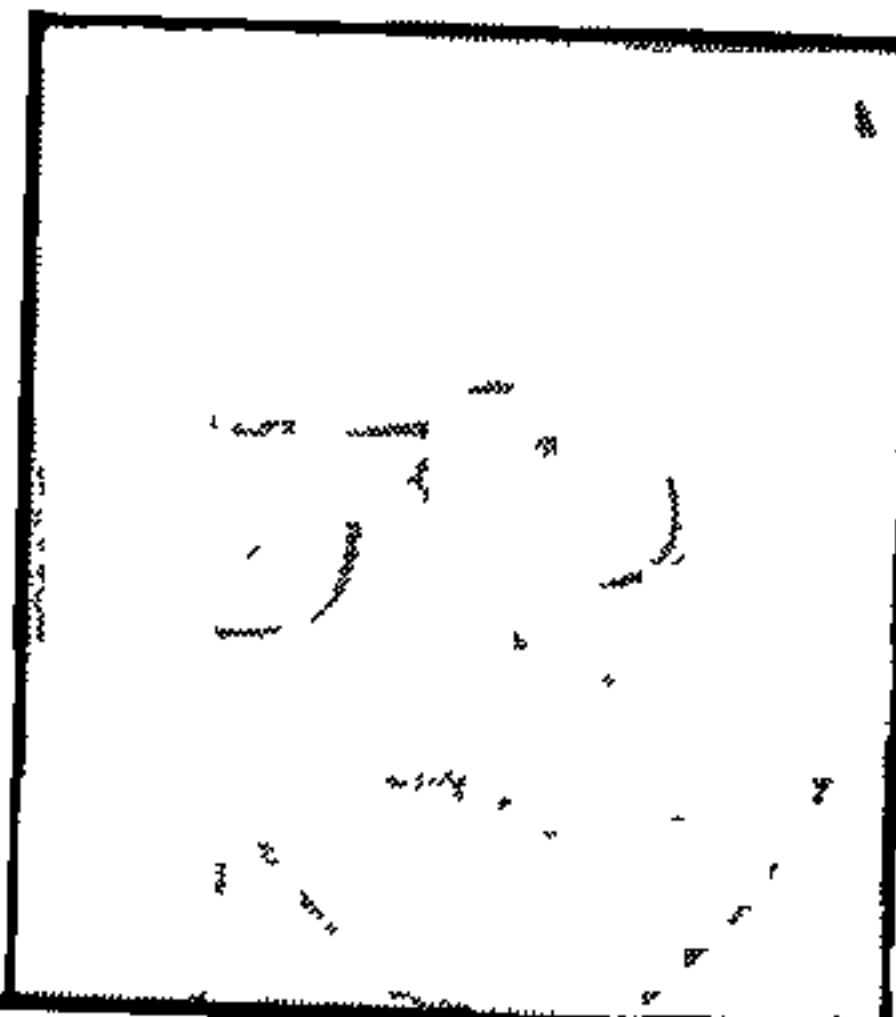
Areas of structural adjustment included the maintenance of a surplus on the current account during a period of economic upswing, high interest rates, which affected the level of savings and investment in capital projects and capital/output ratios, the tax reform programme, though this would take a long time, and deregulation, privatisation and the promotion of the informal sector

● Meanwhile, in what was clearly intended as a low-key exercise, Mr Du Plessis made only fleeting reference to South Africa's economic problems in his address to the IMF/World Bank gathering

He reconfirmed South Africa's identity with the aspirations and development needs of sub-Saharan Africa, adding that "within our means we stand ready to actively render support where possible"

He told a relatively well-attended meeting that regional co-operation with a view to optimising economic growth was of the utmost importance, since small internal markets and low purchasing power were barriers to international competitiveness in many of the countries in the region

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proving their competitive position

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In an oblique reference to South Africa's foreign debt obligations, Mr Du Plessis said "For a country to extricate itself from an international debt servicing problem is, as we have learnt at first hand, a traumatic and painful adjustment process"

"The greater involvement of the Fund and the World Bank in providing assistance to these countries should therefore be encouraged"

"Confidence in the ability of a country with a debt service problem to absorb new foreign capital will not be restored through debt forgiveness but rather through the successes achieved with the restructuring of its basic economy"

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Economic, political freedoms essential — Bush

By JOHN SPIRA

ECONOMIC and political freedoms are essential and inseparable companions on the road to national prosperity

This was the theme of US President George Bush's address to the IMF/World Bank meetings here yesterday (Wednesday)

Stressing that "freedom works", Mr Bush said "The jury is no longer out. Look at the two economic systems and see who has prospered and who has struggled"

"Let's put an end to this economic experiment because history has decided. Free markets, free speech, free elections and the exercise of free will unhampered by the State were the ingredients for a more just and prosperous future"

In Latin America, Africa and Mexico, courageous leaders are turning away from State control of their economies. Economic restructuring and deregulation are opening the door to private initiative. And already they are seeing results

Mr Bush made a strong plea for the continuation of the debt reduction programme, pointing out that the strengthened debt strategy was flexible enough to address the unique needs of each country. But he warned that the strategy would not work without sound economic policies in debtor countries

"Inefficient, unrealistic and growth-stifling policies must go. Benefits are available to a broad range of other countries that pursue economic reforms"

Commercial banks, he urged, have a special role in making this process work "and must follow through on efforts made with Mexico and the Philippines and broaden their efforts with other countries". He added "We encourage these steps not as self-sacrifice but as self-interest. True, success will help not only the debtor nations

"It will also strengthen the banks by putting their portfolios on a sounder footing"

Huge increase in resources sought

WASHINGTON — At a time when its largest shareholder, the US, is struggling to trim its huge budget deficit, the IMF is increasingly being viewed as a lending agency that wants to throw money at problems

The agency's attempt to gain a huge increase in its resources is helping to raise questions about the role the IMF should have as the world economy enters the 1990s and an eighth year of sustained growth.

Countries in economic trouble or with huge foreign debts want new initiatives to help heal their economies and hope the IMF will get a boost in resources soon. But some of the richer members think the IMF has enough money, or nearly enough.

The resources issue was under the spotlight as finance ministers and central bankers from 152 member countries attended the first formal session of the IMF and World Bank joint annual meeting on Tuesday

IMF MD Michel Camdessus, forcefully arguing that his agency needs massive new financial muscle, wants subscriptions doubled from the present \$120bn

Camdessus argues that the IMF, as the central player in the world monetary system, must be ready for anything

But Dutch finance minister and chairman of the IMF's powerful interim committee, Onno Ruding, has told a Press conference he thinks the increase will be between 50% and 67% — Sapa-Reuter

Scoring later

By scrapping tax on provident funds administered by life assurers, the authorities have cut off a source of income. But there could be method in this apparent madness — or sudden sanity, depending on the viewpoint.

"They've given up the collection of immediate tax, but reduced the risk that they'll have to pay out higher contributions to pensioners in the long term," says Old Mutual AGM Henk Beets. "If more people are attracted to providing for their own retirement, they won't rely as much on the State."

Will the soon-to-be untaxed lump sum payout of provident funds become a more attractive investment than monthly payments of pension funds?

"People will choose according to their lifestyle," Beets says. "But, with the removal of the tax distortion while benefits are built up, people won't choose for tax reasons."

The change was announced last week by Commissioner for Inland Revenue Hannes Hattingh in a letter to the Life Offices Association. The Income Tax Act will be amended next year.

The tax anomaly between provident funds administered by life assurers and self-administered funds was not significant before the abolition of prescribed asset requirements. Provident funds administered by life assurers were previously taxed but only had to invest 33% of assets in prescribed assets, privately administered funds were untaxed but had to invest 53% in prescribed assets. ■

CAPITAL FLIGHT

Current float

Reports from the IMF conference in Washington this week suggest the extent of "errors and omissions" on SA's balance of payments reflects a flight of capital.

Reserve Bank deputy governor Jan Lombard argues this item is frequently misunderstood. Most of its movements, he recently told the *FM*, can be accounted for by leads and lags in the large float of trade credit. Fluctuations in this have to show up in the unrecorded item in terms of the procedures used to construct statistics for the BoP.

So large is the float, says Lombard, that "reasonable fluctuations" can easily explain most of the unrecorded item. Of total foreign debt of say US\$21bn, \$13bn is "outside the net." Of that, much would be trade credit.

Another major complication in interpreting errors and omissions is caused by cross-rate fluctuations. Much trade finance (and indeed foreign debt in general) is denominated in third currencies.

Though the rand/dollar leg of forward cover is obtained from the Reserve Bank, the dollar-third-currency leg is covered in foreign markets, which usually roll cover over at short intervals. If the dollar strengthens, local importers have to pay in more dollars to maintain cover in third-currency terms. Such an outflow will also show up in

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To a new frontier

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 mail

■ This year the focus has shifted from Third-World debtors to Eastern Europe

As leading bankers from most Western countries — as well as some from the Eastern Bloc — arrived in Washington this week for the annual International Monetary Fund (IMF) and World Bank meetings, they took up with enthusiasm the cause of Eastern Europe. Poland in particular needs urgent and immediate financial assistance to underpin economic liberalisation.

Aid to eastern Europe was the subject that dominated the meeting last weekend of the Group of Seven (G7) major industrial nations whose heads of state or government meet annually at economic summits. US Treasury Secretary Nicholas Brady remarked afterwards that the whole meeting became electric when talk began on changes in the USSR and Poland.

Poland, under a fledgling Solidarity government, faces repaying debts of US\$39bn and the inevitable hardship it will face in doing so will certainly require political re-

solve. For unlike highly distorted Third-World economies struggling with similar problems, Poland and other Eastern European countries have first to introduce market economies capable of generating output.

So enthusiastic are Western bankers over the prospect of what they believe to be the enormous economic potential of an enlarged and enlightened Europe — one that could even incorporate Soviet Russia — that the \$508bn middle-income countries (like Mexico, Brazil and Argentina) are expected to owe by year-end raised little response.

There were no new initiatives at this year's meeting — such as the 1985 Baker plan, last year's Japanese plan and the Brady plan — to assist the Third World in making the harsh economic adjustments that will lead ultimately to their being able not only to pay their debts, but enhance their prosperity. The Brady plan envisages a reduction of debt, easier repayments and some new loans

guaranteed by the IMF and World Bank.

Only days before the IMF meeting began some large American banks (J P Morgan was one) increased substantially their provisions for Third-World bad debts. J P Morgan added \$2bn to its reserve and is expected to have a \$1.8bn loss in the third quarter as well as a loss for the year. In doing so it followed closely on the heels of Manufacturers Hanover and Chase Manhattan, both of which had announced earlier substantial but not identical provisions (see *World*).

This has been taken as more than a hint from the banks that not only are they unhappy with the Brady plan — which they regard as Brady's giving away of their resources — but that they do not intend to continue lending to the profligate Third World, or certainly not within the foreseeable future.

Of course, theoretically, the risk of lending to the Eastern Bloc, the fountainhead of

collectivism, could be as high as lending to an incompetent Third World. The difference is that Western bankers see the Eastern Bloc both benefiting from and being incorporated in post-1992 Europe. They have greater confidence, too, in the skills and endurance of eastern Europeans than in many Third-World populations.

So the Brady plan — despite its application to Mexico and one or two other smaller Third-World countries — appears unlikely to gather much momentum in the years immediately ahead. Even if it should be applied to some countries its scope is limited. It will not benefit all. Nor, by its very nature, can it apply to all Third-World countries. For instance, 60% or more of debts in Africa are to institutional or official creditors and not to private-sector banks. With a 40% debt-service ratio African countries are managing to pay only about half the amounts due, rescheduling the balance or allowing it to fall into arrears.

What could be critical for the IMF and the Third World in the next decade is how the West decides to lend to Eastern Europe. If the IMF wants to be involved — and its MD Michel Camdessus says it does — then an important precedent will have been set from which, because of the amounts most likely to be involved, there could be no turning back. But it could ultimately be to the Third World's advantage by freeing for it more institutionalised credit.

If the IMF becomes the conduit for Western loans to the Eastern Bloc it could, however, jeopardise its role as a world central bank, providing last-resort assistance to countries with balance of payments problems. The fund, which has been inching that way for some years, would become another development agency.

Perceptions of the fund's role in the future are also a matter of controversy in Washington. Some of the industrialised nations see Camdessus' attempts to have members' quotas doubled to meet contingencies, despite the fund's substantial liquidity, as a subtle way of preparing for a substantial change in its role. They believe these resources, provided by taxpayers in the West, could find their way to some profligate Third-World dictatorships where, despite Camdessus' best efforts, they will be squandered.

Fund officials are not themselves averse to its gradually assuming more the role of a development agency. The fund was established 45 years ago to administer the Bretton Woods system of linked exchange rates which lasted until the early Seventies, when most countries decided that floating exchange rates were a more reliable means of achieving economic adjustments than relying on spendthrift politicians and recalcitrant central bankers. Since then the fund's traditional role has been slowly changing.

Fund officials fear too that after 1992 and a monetary union in Europe — possibly including the creation of a European Central Bank — the fund's traditional role will become even more circumscribed as fewer in-

dustrialised countries will have a need for balance of payments facilities.

Over the past decade the fund has increasingly become involved in what amounts to development aid — the fund calls it structural adjustment — for which it has more than one programme. This means simply that instead of concentrating on macro-policies of fiscal and monetary restraint, it attempts to use supply-side economic measures over the medium term to make economies more productive and efficient — through, for instance, deregulation, trade liberalisation, and the removal of impediments to the mobility of resources. The trouble is that too often structural adjustment becomes a euphemism for avoiding fiscal and monetary discipline.

The fund has, moreover, allowed some countries to use about 25% of their normal fund assistance to buy back debt at a substantial discount. The net outcome is that the debt of these countries to the private sector is reduced more than their debt to the fund. That is probably a questionable practice.



Camdessus ... Quota proposals in question

Those who do not want to see the fund change its role are, therefore, opposed to its increasing its resources to the extent Camdessus is advocating. But that doesn't mean they oppose any increase. It is the quantum that is causing misgivings. If Camdessus' recommendation were accepted members would be able to draw up to 400% of a much enlarged facility at a time when inflationary pressures, even in industrial countries, were on the increase.

There are other reasons for the US and UK not wanting such a large quota increase. It would most likely mean that Japan would become the second largest shareholder after the US with Britain falling to a shared third place with France. Both argue that Britain's experience in international financial matters should be worth more than Japan's money. This follows the rejection last year of a Japanese plan to assist Third-World debtor

nations. The US is just too suspicious of Japanese motives.

These developments suggest a growing politicisation of the fund's affairs so far as members (not officials) are concerned. The irony is that most of those who want to assist Poland, because it is moving towards the West, also oppose a large quota increase and a change in the fund's traditional role. They are also against the fund giving further assistance to China since its recent Beijing massacre.

The US's insistence on Brady-type aid to Mexico has more to do with the US's Latin American regional policy than anything else. And, of course, the block that the US has effectively placed on SA's use of standby fund facilities is a political act. It has simply required its ambassador to refer any vote on SA's access to these facilities

to Congress, thus ensuring what would amount to an emotional and unreasonable Congressional discussion.

A change in the role of the fund is probably inevitable. It is a fact of life that today industrialised nations need its traditional facilities much less than in the past. It is just as true that banks are unlikely to lend again in the decades immediately ahead to the Third World. The debt of more than 70 developing countries is now subject to re-scheduling arrangements. Clearly the only capital facilities available to the Third World are going to be from institutions like the World Bank and IMF.

But it would also be premature to begin dismissing the traditional role of the fund. Even if these facilities are progressively less in need, they could be critical in an uncertain world. Nor does the short-term and revolving nature of the fund's facilities fit easily into the financing of an institution whose function it is to promote structural adjustment and development. There is a danger that the financial integrity of both would be jeopardised. Certainly there could be tensions over confused objectives and differing ideas of priorities which in one organisation could create tension that is more destructive than creative. There is already intimation of that in the fund's annual report where it deals with its relationship with the World Bank.

It is possible, too, that if there is an economic revival in Eastern Europe the role of the fund could be shaped by the Soviet Union wishing to join. But that is a question, should it arise, needing very careful consideration by the shareholders.

Clearly it is going to be many years before SA will be able to use the facilities of the fund to which it is entitled or play the part that it once did in the fund's affairs. But its limited and dignified participation does keep open some encouraging options, especially as its adherence to the enforced debt rescheduling has impressed many bankers in the US, UK and on the Continent.

Nigel Bruce, writing from Washington

No room for the poor in the golden 1990s

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NEW YORK — This year's annual meeting of the International Monetary Fund and World Bank ended yesterday in a new spirit of optimism.

Policy makers from the industrialised countries appear increasingly convinced that the spread of market-oriented economic policies throughout the world and a new industrial revolution, linked to the use of computer technology, may be creating a new era of sustained growth.

But the belief that the 1990s may be a golden age for the developed world has thrown the problems of the heavily indebted and poorest developing countries into sharp relief.

Mr Jacques Attali, the special adviser of French President Francois Mitterrand, summed up the mood of many when he told a private seminar on the world economy. "We are at the beginning of a long term period of growth worldwide".

According to Mr Jacob Frenkel, head of the IMF's research department, the average growth potential is now around 3 per cent, about one percentage point higher than in the 1970s.

It was left to Mr Barber Conable, the World Bank president, to remind the IMF annual meeting that the development needs of the 1990s will be enormous.

The world, he said, had to overcome stagnation in Africa, to move beyond debt paralysis in Latin America and elsewhere, to offer growth and hope to Asia's hundreds of millions of

PETER NORMAN

poor people, to assist reform and renewal in countries moving away from centrally planned economies and to reverse the degradation of developing countries' natural resources.

Despite buoyant world trade, eight years of growth in the industrialised world had not trickled down to many developing nations. The growing gap between the rich and poor nations may thus become the central issue for economic policy makers in the 1990s.

The catalogue of woes facing Poland were typical of many countries. Unveiling his dramatic plan to move towards a market based economy, Mr Leszek Balcerowicz, the Polish Finance Minister, said that average living standards in Poland were below those of 10 years ago.

Polish poverty

He said the number of people living below the poverty line had risen sharply. The ecological crisis in parts of the country was catastrophic. Hyper-inflation threatened social stability while industrial production was declining.

Free market economic policies may have been instrumental in boosting the economic welfare of the industrialised countries. But they are a harsh taskmaster.

As the industrialised nations continue to grow, it will become

increasingly difficult for debtor nations to catch up.

In terms of gross national product, Japan's economy already dwarfs that of Africa. West Germany's is larger than that of India, whose population is ten times greater.

Yet this year's annual meetings offered little to the poor. The debt reduction plan of Mr Nicholas Brady, the US Treasury Secretary, is beset with problems of implementation.

There was no willingness on the part of governments to extend the so-called Toronto terms of official debt relief to poor countries outside Africa.

The US blocked a replenishment of funds for the International Development Association, the World Bank's soft loan affiliate, that provides concessional finance for the poorest developing nations.

It is debatable whether the gulf in living standards between the industrialised and developing world can continue without social breakdown.

Information crosses national borders as never before, boosting expectations and hopes and triggering emigration from the poor nations to the industrial countries. Countries with grave economic difficulties could face public order problems.

Mr Balcerowicz, for example, stressed that the hardships that will be unavoidable under the new Polish government's economic reform programme could sap the government's popular support and create potentially



TRAGEDY: Thousands if not millions starve in Africa and no one can help.

explosive social conditions.

One positive aspect of the past week's discussions is that longer term issues such as demographic change are getting on to the agenda of policy makers in the world's leading industrialised countries.

After many years in which policy co-ordination appeared to focus on crisis management, this year's discussions also encompassed broader questions such as the low level of savings world-wide and the consequent threat of a shortage of funds for investment.

But there was also a clear understanding that policy co-operation, while essential in an interdependent world, is no substitute for sound economic policies at home.

Nowhere is this truer than in the developing world where many countries still have to attack corruption and inefficiency. — Financial Times.

Stormy waters despite the calm



MIKE BROWN, economic consultant at stockbroker Frankel Kruger Vinderine Inc, reports from Washington on this week's International Monetary Fund annual meeting.

THE business-as-usual atmosphere governing IMF meetings could not submerge undertones of disquiet.

Issues which could open an "ozone hole" in the otherwise urbane atmosphere of a world financial system include

- Funding of the IMF and the associated matter of its role in the monetary system
- Discord about debt policy, debt reduction and rescheduling even though the crisis is now in its eighth year of irresolution
- International co-operation in managing a world economy well overdue for a phase of slower growth and economic readjustment

Nineteen of the IMF's board of 22 executive directors favour an increase of be-

tween 50% to 67% in IMF quotas — from 45-billion special drawing rights to 60-billion SDRs

The problem is that the three dissenting members — the US, the UK and Saudi Arabia — pack some punch and 85% of members' approval is required to ratify any rise in quotas

The UK's resistance to an increase stems largely from the realisation that an enlarged quota would reduce its voting strength

US Treasury Secretary Nicholas Brady said no "persuasive case" had been made for an expansion of IMF capital resources

He claimed that "a decision on quotas must be based on fundamental progress being made in resolving the arrears problem to strengthen the revolving monetary character of the institution"

US resistance to expansion of quotas is not purely a matter of principle. The harsh reality is that Congress, faced with the pressing need to reduce the Budget deficit, is unlikely to view favourably the request to increase US contributions to the IMF by up to \$24-billion

Jeopardy

The IMF interim committee has called for resolution on the quota issue by the end of this year

The last review of IMF quotas took place in 1983. Since then, the world economy has grown by 50% and payments imbalances have tripled. An economic downswing would accentuate the balance of payments problems of developing nations. Without adequate funding the IMF's effectiveness could well be in jeopardy.

In May this year, the IMF adopted a series of guidelines — the Brady Plan — to facilitate case by case a reduction in the volume of outstanding debt-service payments.

The IMF strategy provides for guidelines on sound economic policies with emphasis on measures to increase foreign and domestic investment and stop flight capital. IMF financing of debt support systems and active participation by commercial banks in supporting debt refinancing and providing new capital are part of the strategy.

IMF assisted refinancing has been arranged for Mexico, Venezuela, Costa Rica and the Philippines.

In spite of assurances by IMF officials that the debt shrinkage packages are

working smoothly, the facts suggest otherwise.

The Mexico deal, for instance, involves a complex set of three refinancing options for commercial banks broadly revolving around the concession of debt from short- to long-term maturities at discounts of 35%.

Alternatively, banks could lend money to Mexico collateralised by 30-year US Treasury zero coupon bonds, guaranteed by the IMF and the World Bank, at 7% interest rates with repayments starting in seven years' time.

Presumably, the idea is for new money to ensure that payments of interest continue on old debt. As one source put it "The IMF is lending Mexico \$150 to save it \$5 a year in interest payments."

At the root of the banks' concerns about debt reduction are

- The failure of many major debtor nations to meet interest payments or debt
- The flight of capital. Some sources put the assets held abroad by South American residents above the total amount of loans extended to the region by US banks — more than \$400-billion

Growth

Clearly, the lesser developed countries' debt problem is at some point of resolution — but the debt bomb, on which the clock started running in 1982, continues to tick.

IMF economists report favourably on a good year for the international economy.

Real growth in the industrialised economies is expected to rise by 3.5% in 1989 and 3% in 1990, down from the 4.5% of 1988, but signalling a soft landing for the major nations.

Inflationary forces should dissipate as the economies slow down. The IMF expects an aggregate inflation of

3.9% next year compared with 4.5% this year.

The relatively sanguine outlook for the international economy does not, however, mask the fact that the IMF sees problems.

- Monetary policy, for instance, should not be eased prematurely.

- World payments imbalances continue. For instance, the IMF expects the US current account deficit to widen again next year to \$139-billion from \$125-billion this year and for West Germany and Japan to continue generating larger surpluses.

Shared

- The IMF sees the strong dollar as the main reason for the expected uptick in the deficit. Not surprisingly, it also regards the dollar's strength as a threat to the economic upswing because it could force up interest rates and increase the overall debt of developing countries.

The concerns about the strength of the dollar are shared by the Group of Seven Countries.

Many G-7 members believe that co-operation should go further than exchange-rate management. Singled out is the US Budget deficit which propels interest rates and provides an impediment to America's reducing its external imbalances.

What is becoming increasingly apparent is that no action on the deficit can be expected to trigger an interest-rate war because the European and Japanese use higher rates to defend their currencies.

The veneer of international economic accord and co-operation remains intact, but cracks in the system could show up before next year's IMF meeting.

LONDON — In the past few days, the world has been able to ponder one of the mysteries of its economic management.

At the IMF-World Bank annual meeting, finance ministers and central bankers have been extolling market-oriented economic policies as requisite for a new era of growth and prosperity. Simultaneously, however, the world's big central banks have been busily interfering with what must be the world's biggest and most liquid market that for foreign exchange which in London alone has a turnover of \$190bn a day.

The jury is still out on the latest attempt by the Group of Seven (G-7) big industrial countries — the US, Japan, West Germany, France, Britain, Canada and Italy — to tame the dollar. After a week of continued central intervention it was down 7.3 pfennigs and 5.2 yen at midday in London yesterday compared with DM 1,9495 and Y 145.60 the previous Friday.

In Britain, matters have been complicated by a mini-sterling crisis following August's disappointing £2bn current account deficit. Sterling's plight has forced the Bank of England

Attempts to tame dollar go on

into some exotic intervention procedures including the first sales of European Currency Units for pounds.

But although the dollar is down it is not out. As last week wore on it displayed considerable resilience against the central bank onslaught.

On a strict interpretation of the G-7 communiqué, the week's events have been a success for the central banks

Meaningful

The seven "agreed that a rise of the dollar above current levels or an excessive decline could adversely affect prospects for the world economy." They have succeeded in putting a cap on the dollar's rise.

But suggestions from Japan's central bank governor Satoshi Sumita that the recent accord was as meaningful as the September 1985 Plaza agreement to bring down the value of the dollar appear exaggerated. The past week's events did not mark a bid to correct a major mis-alignment in

the dollar such as existed in the mid-1980s.

The latest G-7 text had echoes of the Plaza accord in declaring that the dollar was overvalued. It said "the ministers and (central bank) governors considered the rise in recent months of the dollar inconsistent with longer-run economic fundamentals." However, in the course of the past week, it became clear that there are widespread but subtle differences among the seven over the value and objective of currency intervention to control exchange movements and over future co-operation on exchange markets.

These differences do not add up to such deep discord as the row between West Germany and the US about monetary policy in Germany that helped precipitate the global stock market crash of October 1987.

But they do lend support to the view that the latest agreement on the dollar is a pragmatic affair with the

strengths and weaknesses that imperies.

Monetary authorities hold differing views on the value of intervention itself. The US Federal Reserve, which acts on the instructions of the US Treasury in foreign exchange markets, sold a record \$11.9bn between May and July, building up large yen and DM holdings in the process.

By contrast, West Germany's Bundesbank president Karl Otto Pohl dislikes the role and has become increasingly sceptical about intervention, arguing that dollar sales can merely supply speculators with cheap dollars to sell at a profit later.

Even with intervention in the reported \$4bn range, central banks cannot hope to outgun a market that has doubled in size in the past three years. The G-7 have also been unable to agree on whether to use interest rates to control the dollar.

The latest G-7 communiqué con-

tained no reference to monetary policy. Japanese Finance Minister Ryutaro Hishimoto later made clear that he saw no domestic reason for a rate rise in Japan. In West Germany, where a small increase in the discount rate now seems a possibility, officials hunt at a tightening of monetary policy to encourage counter-inflationary behaviour in the forthcoming wage round.

Surplus

The US Treasury considers that a strong dollar, by making US goods less competitive on home and world markets, adds to the problem. Pohl, however, views the imbalances increasingly as a regional question.

The US deficit is mainly with Japan and Asia, while West Germany's surplus is in Europe. Thus results in the Bundesbank taking a more relaxed view of the rate between the dollar and DM.

Such differences suggest there is little hope for stronger G-7 currency co-operation. Although some countries, notably France, would like to institutionalise the G-7 agreement, with published intervention points for the major currencies, others, led by West Germany, say this would be impossible without a better policy mix.

Since Plaza, little progress has been made towards solving fundamental problems of budgetary imbalances, economic efficiency and low savings rates in the big industrial countries. The parts of the G-7 statement calling on the US, Canada and Italy to cut budget deficits and all countries to open markets to foreign goods, curb subsidies and deregulate, could have been written at any time over the past four years. To policy makers such repetition may signify resolve to markets it smacks of inaction.

Yet, according to Kemper Financial Services of Chicago chief economist David Hale there have been developments over the past year that gave the central banks a fighting chance in their battle of the dollar — Financial Times