I. M. F. 1990

S/Times 7/1/90 (156) 7/1/90

Slow coach approach makes for speed

REX

Cees Bruggemans reviews the local and world scene

INTERNATIONAL Monetary Fund managing director Michael Camdesseus says trade imbalances between the major industrial countries have been reduced.

He believes financial market stability has been maintained in an environment of moderate growth and low inflation Mr Camdessus describes this as a considerable achievement

For years there have been widespread fears of financial instability. The accomplishment of such stability as we have had is received with relief, a pleasant surprise that might not have been

Mr Camdesseus stresses that there is little room for complacency. In spite of the progress, more needs to be done The trade imbalances remain large and are projected to remain so

The huge surpluses and deficits between the trading majors raise concern about the sustainability of world economic expansion and prospects for continued financial stability Indeed, Mr Camdesseus finds a link between tremors in world stock markets last year and these concerns

The Organisation for Economic Co-operation and Development Secretariat and others are similarly worried

Central bankers and politicians of the developed countries are probably also troubled, although they appear more inclined to reduce these imbalances than to wag fingers at every opportunity.

It is easy to identify in each of the major players the structural reforms that should be undertaken to assist a speedier dissolution of the remaining imbalances

The US should reduce its Budget deficit faster and thereby enlarge its national savings pool and lower its reliance on foreign savings, all the while resisting protectionistic tendencies

Japan should remove more forcefully structural impediments to growth, with the attendant benefits of ensuring even quicker increases in imports In particular, it should improve market access for imported goods, especially agricultural commodities

It could also unilaterally lower trade barriers. It should also move forward more decisively with reforms of land management and the distribution system Continental Europe should similarly remove the structural rigidities in its economic system that inhibit economic growth and prevent an even faster rate of imports from outside its borders

All this sagacious advice runs into political obstacles Politics, after all, is the art of the possible Still, it is surprising how much has been achieved by a gradual "slow coach" method of adjustment

Macro-economic policies need not be the sole solution It would be good if political obstacles were to disappear for a while, and structural oddities removed so that the world economy could be rid of its dangerous imbalances much faster

Life is mainly a matter of compromise as conflicting interests seek accommodation, rather than waving magic wands and ridding the world of rough and irritating edges without effort.

According to President Bush "life is combat", and never more so than when national interests lock destinies It is useful to point out the areas where further structural progress should be achieved

Will instability follow if structural rigidities are not dealt with immediately? Or does the "slow coach" approach assist in eroding such imbalances sufficiently in time to prevent Armageddon, as indeed has been the case over the past decade, which started so fearfully and ended so triumphantly?

These questions are fundamental to gold bulls, because the one fork in the road leads to financial chaos as imbalances are not eroded quickly enough and are eventually overtaken by market penalties

But the other fork in the road leads farther along the way we have come so far Russia's perestroika is presented as a one-off happening, whereas adjustment is a permanent feature of all capitalistic societies.

The "slow coach" may not have been so slow seen in the fullness of time when structural changes stand out more clearly than they do close up

US economic growth is now two-thirds of West Germany's and its main associates, half of Japan's and a quarter of the Asian newly industrialised countries (Nics) The implied divergence in import growth between the deficit countries — the US and UK — and the surplus ones is great and likely to grow

The export picture also looks encouraging. US export growth may have slowed down But room is being made for further export growth by America's domestic slowing and still-buoyant foreign demand

Germany's explosive export performance of late reflects mainly its strength relative to its European partners because the European Economic Community trade surplus with the US has disappeared

The Asian Nics have stimulated their domestic spending, their appreciating currencies contributing to reducing their surpluses with the US and Japan has engineered a formidable reduction in its net exports

Indeed, the dollar is just outside the lower end of its official target range of DM1,70 to 1,90 and its upper range of 120 to 140 yen

These levels should ensure dollar trade competitiveness, and US capacity slack and relatively faster demand growth abroad should allow renewed net export gains for America and trade deficit narrowing

The slow coach is not perfect, but it is politically expedient. Distaste for expediency and preference for instant structural action are commendable, but it does not make the solid achievements of pragmatic policy co-ordination less useful — provided the policymakers continue to deliver the goods

STAR 1/2/90 (156)

Gold falls as US proposes IMF sales

Star Bureau

LONDON – The gold price took a tumble here Wednesday as the market attempted to absorb the implications of a suggestion by the US authorities that some of the metal held in the International Monetary Fund's reserves should be mobilised

The market's immediate reaction was to push the gold price down to $411,30 Buyers came in and gold closed in London Wednesday night at $412,75, down $6,25 on the day

The price fell further in New York Wednesday although it was clear that the proposals did not necessarily involve the sale of physical gold into the market

Gold closed in New York at $412,35 and declined in Hong Kong this morning to an opening at $411,45

The US proposals are aimed at solving the thorny problem of some debtor countries' arrears to the IMF

About three percent of the 103 million ounces of gold in the IMF reserves were lodged by developing nations at the equivalent of $46

That gold could be sold off market to central banks and the money used to wipe the debtors' slate clean at the IMF

It was clear Wednesday night that the US proposals would not be widely popular, not least because the IMF's gold holdings have been regarded as inviolable Also, countries which have not run up arrears would almost certainly argue that they were being penalised for sticking to the rules

US government sources said that while an outright sale of some of the gold was one possibility under the proposal, the Treasury had also suggested some other options, such as using the gold in transactions with central banks to raise funds

However, Mr Andrew Smith, gold analyst with UBS Phillips and Drew, said that, should the proposals go ahead, it would be very negative for gold

He pointed out that although the IMF gold was likely to be sold off market, it would probably go to central banks – such as Taiwan's – which would otherwise be buying the precious metal in the market "It would take away substantial buyers," he added.

And, while the amount might be relatively small as far as the IMF was concerned, "three million ounces or 90 tonnes is a hell of a lot to the gold market," Mr Smith said

The gold was the basic financial underpinning of the IMF to help set up a post-war monetary system and make emergency loans to troubled countries

IMF starts Mozambique on fragile upswing

156

Star 2/2/90

MAPUTO — Those advising East European governments on the transition from a centrally planned economy to a market-oriented one might usefully ponder developments in Mozambique, which has three years of not altogether happy experience under its belt

In 1987, when the economy was near the end of its tether, the government, advised by the International Monetary Fund (IMF) and World Bank, introduced sweeping reforms to revive a market economy that had been all but abandoned when the Portuguese fled their former colony in 1975

In the six years to 1986, gross domestic product (GDP) fell 40 percent, largely due to the escalating civil war between the government and Renamo rebels, but also as 11 years of marxist policies took their toll

Exports fell by three-quarters, the money supply was out of control, the currency was overvalued and inconvertible, and debt payment arrears approached $1 billion

Price incentives

The reformers set out to rebuild the market economy by replacing administrative controls with price incentives, restructuring agriculture, industry, banking and public enterprises and reviving the use of fiscal and monetary policy to curb inflation and stabilise the balance of payments

Interest rates were raised, price controls reduced and government spending cut, though this has been difficult to achieve in a country where defence spending absorbs 36 percent of the budget and 10 percent of GDP

The metical was devalued from 39 to the dollar three years ago to 830 today Private firms were allowed to trade in sectors previously reserved for state corporations

The programme has been a partial success, with the economy growing at 4,5 percent a year since 1987, mainly due to increased food production and improved capacity utilisation in manufacturing

Even so, per capita incomes, estimated at $150, are among the lowest in the world, infant mortality rates and life expectancy rank among the worst in Africa, industrial output is running at only half its 1980 levels, 90 percent of food grains are imported, while exports finance a mere 15 percent of total imports

Even if this growth performance can be maintained, it will take a generation to regain 1980 levels

Despite a reduced public sector deficit and tighter control of the money supply, the reforms have been inflationary, with prices surging 160 percent in 1987 and another 50 percent in 1988

Last year inflation slowed to 30 percent, but in so highly import-dependent an economy, the further currency devaluation, which is inevitable, must mean continued rapid inflation

The social and political repercussions of this have been vividly illustrated in the recent rash of strikes in Maputo for which the Renamo rebel leader, Mr Afonso Dhlakama, has claimed responsibility

A disappointing, if hardly surprising, aspect of the programme has been the failure of exports to respond They fell 10 percent last year to $93 million, compared with $230 million in 1982 and a low point of $75 million in the mid-1980s

The World Bank expects exports to more than double in the next four years, reaching $210 million by 1994, but this looks to be excessively optimistic in the light both of recent performance and the narrow export base, with prawns and cashew nuts accounting for two-thirds of the total

In any event, the export contribution to the balance of payments is no more than marginal Mozambique earns more from invisibles such as worker remittances and rail and port services, though the former are on a plateau and likely to remain so

At the same time, the debt-service burden is 275 percent of exports of both goods and services and nearly one-fifth of GDP The current account payments deficit, running at more than $1 billion a year can be funded only by the combination of aid inflows and debt relief

Because Mozambique's situation is unique, comparisons with other communist states seeking to restructure their economies can be taken only so far The binding constraint on economic recovery, not shared by Eastern European countries, is the scarcity of skills throughout the economy

Symbol of Mozambique's recovery, the Polana Hotel in Maputo where at one stage diplomats had to cook their own food on gas stoves in their rooms It — has now recaptured some of its former grandeur

No East European country has so undeveloped an infrastructure, such low living standards and such heavy dependence on agriculture

Options are further circumscribed since with such grinding poverty there is no scope for reducing consumption to boost savings and release resources for investment or exports

Eastern Europe

Furthermore, Mozambique is not going to attract inward investment on the scale that Eastern Europe can realistically expect.

Above all, there is the war Until that is settled, recovery will remain a mirage As it is, the fragile upswing is almost totally dependent on aid inflows which, including debt relief, are projected by the World Bank at $1,4 billion a year over the next four years

Ironically, it is probable that Mozambique will be one of many African countries to suffer as aid funds are diverted to Europe, which makes progress towards ending the war more urgent than ever But even if these aid levels could be attained, they are more of a working capital character than developmental

They are keeping the economy afloat, but self-sustaining growth will remain elusive until President Joaquim Chissano and Mr Dhlakama can resolve their differences

This consideration ought to concentrate the negotiators' minds wonderfully when face-to-face talks start, perhaps this month — Financial Times.

STAR 5/2/90

The Star
Finance

(156) (8880)

Gold market shrugs off possibility of IMF selling

By Neil Behrmann

LONDON — The gold market has shrugged off the possibility of International Monetary Fund sales in the coming year

"There will still be a lot of negotiating," said a London bullion manager "The knee jerk reaction of Wednesday last week had to be wrong "

After the initial setback, the market soon realised that the IMF would either "mobilise" the gold through swops for foreign exchange If it decided to sell, the sales of 3 million ounces would not take place immediately

Voting power

In fact the reason for the dip in gold prices was attributed to rumours of sales by East Germany rather than an overhang of IMF supplies

The US proposal that the IMF should mobilise about $1,2 billion worth of gold to help some severely indebted nations, has hit strong oppsition from western Governments

Differences about the plan are likely further to delay long-running negotiations on an expansion of the fund's resources

A decision could well be taken at the interim IMF meeting in April

In terms of the US proposal, the international agency would sell the gold that it holds for member countries that have failed to repay IMF borrowings The 15 nations include Zambia, Sudan, Vietnam, Kampuchea, Peru, Liberia, Panama, Guyana, Somalia and Sierra Leone.

The US proposal would need 85 percent approval from the IMF's members Voting power is weighted according to IMF contributions, so to win 85 percent approval the backing would need to come from the main shareholders, notably European nations and Japan

Since the gold represents less than 3 percent of the 103 million ounces pledged by member nations, the plan could be accepted

However, opposition to the issue seems likely to be strong The powerful Bundesbank, which holds West Germany's gold reserves, believes the selling of the fund's gold would provide an undesirable precedent.

It and others believe the plan smacks of debt forgiveness by the fund, which should not be contenanced

They also say it does not addresss the issue of arrears to the other multilateral institutions, such as the World Bank, and believe the incentives under the plan would not be sufficient

Public auctions

If the IMF decided to sell the gold outright, it would probably have a series of auctions In the late seventies, the fund sold 23,5 million ounces via 45 public auctions

In 1976 the IMF began selling this huge quantity, which exceeds South Africa's annual production. The market was so fearful that gold, already in a downtrend from a peak of around $200 in 1974, went into a tailspin and fell to a low of $103 in August 1976

It turned out in the end, however, that the IMF sales were very bullish Investors were only too happy to buy gold and by the time the auctions ended in 1980 gold had peaked at $850.

The IMF eventually raised just under $6 billion But at today's prices the gold would have been worth around $10 billion

Some London stockbrokers say the sales would lead to a price slump This would only be true in depressed market conditions. Given normal trading, the bullion would easily be absorbed

Early last year, for example, the Belgian central bank sold four million ounces of gold. That sale, which was around February and March put paid to a gold rally which was then peaking around $400 But there were more than sufficient Far Eastern buyers to lock away the gold

Alternatively to sales the IMF could arrange swops. Desperate Third World nations would raise foreign exchange to repay the IMF by depositing the gold as collateral with lenders

Eastern bloc told: no reform, no aid

PRAGUE — US Secretary of State James Baker warned East European nations yesterday Washington would cut off economic aid if they strayed from the path towards democracy A104 8/2/90

In a speech at Prague's 12th-century Charles University, Baker referred specifically to East Germany and Romania where, he said, rearguard anti-democratic actions had undermined the legitimacy of their governments

"We are troubled by indications that some of the governments in the region have engaged in practices that would obstruct truly free and fair elections

"Let me be clear the peaceful transition to democracy now under way in central and East Europe will not tolerate rearguard manoeuvres from any quarter," he said

Baker said "any backsliding in the movement to create legitimate governments will isolate (East European nations) from the support we can provide."

But he made it clear he regarded Czechoslovak progress towards democracy as satisfactory, and proposed a package of political and financial aid to Prague.

It included the granting of "most favoured nation" trading status, export credit guarantees and support for Czechoslovakia's application to join the IMF. (156)

Baker said he supported co-operation between East European nations, including a possible free trade agreement, free flow of capital and labour, a harmonised financial structure and even a common currency — Sapa-Reuter

Gold slumps on rumours of IMF sell-off

MERVYN HARRIS (156)

GOLD slumped $6 to $412 in hectic trading in New York last night on news that the US was proposing the IMF sell off about $4bn of its 103-million ounces of gold holdings to help fund settlement of overdue loans to developing countries.

It was one of several drastic steps being discussed by the IMF executive board to deal with steadily-mounting loans arrears of nearly a dozen third-world countries.

No other major monetary nation in the 152-nation organization is yet backing the idea, AP-Dow Jones reports.

Monetary sources said IMF sales of about 10-million ounces of gold at market-related prices, either by auction or "swaps" of IMF gold to governments and central banks in exchange for US dollars and other "hard currencies," could be accomplished without upsetting the world"s private gold market

The losers would be countries such as Peru, Liberia, Zambia and others that already have been declared ineligible for new IMF loans as they have piled up more than $3,6bn in loan arrears on IMF credits

With other IMF member countries, these nations turned gold over to the IMF to cover 25% of their original IMF quotas or subscriptions, and would lose any chance to get that gold back, even if the IMF was to go out of business and redistribute its gold holdings — worth about $40bn at market-related prices — to member nations.

BDay 1/2/90

News of the proposal pressured gold, which had earlier been boosted by reports — later denied — that Soviet leader Mikhail Gorbachev was considering quitting his post as Communist Party leader.

Dealers said people who had gone long on gold on the Gorbachev rumours rushed to get out of their positions, but a cold reception from other IMF members to the US proposal could easily spark a quick recovery in gold prices.

Spot gold immediately fell about $3 on the news, dealers said

Swiss Bank senior gold dealer Andreas Maag said a cold reception from other countries could easily spark a quick recovery in gold prices. However, if continued pressure forced spot gold prices through the $410 level, a new wave of chart-dictated selling would emerge.

F/M 9/2/90 (156)

Easier said than done

■ Economic opportunities depend on careful analysis

Rimmer de Vries, chief economist, Morgan Guaranty Trust, provides a perspective on eastern Europe.

The downfall of the old-line communist rulers of eastern Europe is triggering irreversible changes in the region Assuming the Soviet Union continues to pull back, both economically and politically, potentially significant opportunities will open up for Western firms and investors The Eastern economies could raise their living standards, provide expanding markets for Western firms and perhaps function as low-cost production sources for west European markets

Due caution begins with the recognition that the Eastern countries, excluding the Soviet Union, are of modest immediate economic significance Though their collective population of about 110m is roughly one-third that of today's European Community, their GNP — of which all estimates are necessarily shaky — may be less than that of Italy alone

First, the Eastern economies have limited potential as export markets for the West In 1988, their combined hard-currency purchases came to only US$35bn, as up to 70% of their external trade was conducted among themselves or with the Soviet Union The existing Comecon trade regime is now likely to be changed by substituting world market prices for the former fictions and provide for hard-currency settlement of trade imbalances

Second, suppose, at the extreme, that the Eastern economies raise the proportion of their imports from hard-currency sources to 70% over five years and are able to finance 10% annual growth in their imports overall Five years hence, their hard-currency imports would rise from the 1990 level of $35bn to $120bn at today's prices While this would be a significant sum, it would amount to no more than the total rise in exports of the four major Western European economies during last year alone

Third, caution is warranted concerning the investment potential of the east European economies Take the case of East Germany providing its 17m population with a capital stock akin to West Germany's would take cumulative investment in plant, equipment and infrastructure of perhaps $200bn Western capital goods and construction firms drool at the prospect

But, starting from a position where the creditworthiness of all Eastern economies is in serious question, who will pick up the financing tab and with what chances of success? Export expansion by the Eastern economies in the Eighties met only limited success, was very costly to living standards and investment and did little to relieve the dearth of hard currency for imports to support development — very similar to many debt-loaded Latin American economies The Eastern economies now can try to divert exports from Comecon-partners to Western markets, in so far as the products concerned are of saleable quality But their overall exports and growth will be severely limited by domestic needs and supply constraints

The political changes, therefore, do not necessarily unlock doors to large-scale private bank finance without Western official guarantee Nonetheless, banks will be pressured for new money or reduction of existing claims, perhaps in the context of the 1980 Brady Initiative The pressure has begun in the case of Poland, even though banks hold less than one-quarter of Poland's $40bn debt versus the two-thirds owed to Western official creditors The banks' steering committee and the officials' Paris Club met jointly recently on Poland's needs

Many banks may lean to debt reduction and the officials to further rescheduling But the officials will stay wary of cutting back their claims, lest middle-income borrowers elsewhere in the world demand similar relief

More certain, and in large measure for political reasons, is a major pick-up in the flow of official finance to East Germany and to other Eastern countries making credible efforts to reform their economies Closer links with Western multilateral institutions should help Hungary, Poland and Rumania have been members of the IMF and the World Bank for some years Czechoslovakia now is expected to apply for Fund membership and both Bulgaria and East Germany are considering the possibility

Given genuine commitment to reform, the Bretton Woods institutions have much to offer both in advice and in cash, whether from their own resources or by triggering other official credits Indeed, Fund programmes should be prerequisite to assistance from the EC, Japan and the US

Hungary has begun reforms with an eye to a Fund package and a $1bn credit tentatively pledged from Western governments Poland already has reached an IMF accord intended to provide $700m in Fund credit over 13 months and later this year may qualify for substantially greater Fund support Related to its initial IMF accord is an early $1bn currency stabilisation loan from Western governments and up to $1,7bn in possible World Bank credits

As do other eastern European countries, Poland faces a daunting stabilisation challenge It must secure and maintain wage restraint as it removes subsidies, hikes prices for essential goods and otherwise tackles fiscal imbalance and the inflationary legacy of excess liquidity. Under price controls, incomes and purchasing power normally exceed the value of goods available If controls come off, prices must rise not only to balance income and goods available, but to mop up excess liquidity accumulated in the past

The problem is complicated in Poland's case by the estimated $6,5bn in hard-currency circulating cash and deposits in the banking system, whose purchasing power cannot be eroded by zloty depreciation or normal management Price liberalisation in Poland already took the 12-month inflation rate above 550% by late 1989 and, in January alone, overall inflation is expected to run at 50%

Government hopes that under-indexing of wage increases will bring inflation down to 5% monthly by the spring In the process it anticipates a 2%-3% drop in output this year and a 20% plunge in real incomes from prior (overstated) levels Up to one million job losses — 6% of the labour force — may come to pass in an economy ill-prepared for open unemployment

Western governments are groping to come up with constructive ways to increase the changes for successful reforms in the East, aware that the new leaderships there lack experience and may be vulnerable to conservative reaction Modest official assistance to relieve stabilisation hardships are needed

There is a danger, however, that large-scale provision of official funds — perhaps through the proposed European Bank for Reconstruction and Development — would wind up underwriting uncompetitive public-

F/M 9/2/90 (156)

sector showpieces rather than seeding private initiatives More valuable to the Eastern economies than gifts or loans from Western governments would be increased joint venturing and other direct investments by Western firms

To realise private investment potential requires that existing deterrents be eliminated Thus, as East Germany moves to lift its joint venture ban, it would make little sense to install a restrictive successor regime More generally, foreign investors require credible and predictable legal, regulatory and fiscal arrangements to define property rights and allow profit repatriation at will or within an acceptable time horizon

An ideal investment environment, from the standpoint of resource allocation, would foreswear arbitrary export performance requirements of foreign investors, ownership limits, or other discrimination against them This will not be easy for economies subject to nationalist sensitivities, of which foreign investors in turn must be mindful. Still, non-discrimination is important in investment matters, not least so that the Eastern economies may develop constituencies in the West to improve their trade access to Western markets

Currently, only East Germany enjoys any degree of free access to the EC, since its trade with West Germany is treated as intra-EC trade free of tariffs and quotas Over time, the Eastern countries will need to win trade privileges in the EC comparable to those enjoyed by EFTA members, ultimately leading to their effective integration with the West European economy.

All told, the Eastern countries will need many years to transform themselves into dynamic market economies Certainly increases in trade and investment vis-a-vis the East will not prove a substantial direct stimulus for the West in the short run Indirectly, however, the changes in eastern Europe should be a plus for general investor confidence in the West, particularly in western Europe ■

BDay 23/2/90 · [redacted] 156

No IMF loans to SA, vow pro-sanctions members of US Congress

SIMON BARBER

WASHINGTON — Sanctions proponents in the US Congress yesterday vowed to block any move by the administration to suspend the effective US veto on SA borrowings from the IMF.

Assistant Secretary of State for Africa Herman Cohen told a congressional panel that such a move was being "studied" and might be permissible under existing law.

House Africa Subcommittee chairman Congressman Howard Wolpe said he believed SA was sounding out the fund on the possibility of a $1,9bn loan

Cohen said he was "unaware" of any such discussions Foreign Assets Controls treasury office director Richard Newcomb said "there have been no formal contacts between SA and the IMF".

New York Congressman Charles Schumer warned Democrats would hold hostage the administration's request for an increase in the US IMF quota if it supported an SA loan before the complete abolition of apartheid.

"Any loans to SA would kill the chances of an IMF authorisation — you will be throwing the baby out with the bath water."

US may back SA loan application

Star 23/2/90 (156)

By David Braun,
The Star Bureau

WASHINGTON — The US government is looking into the possibility of supporting a South African application for a loan from the International Monetary Fund (IMF) for much as R5 billion as a reward for recent initiatives taken by President de Klerk.

Assistant Secretary of State for Africa Affairs Mr Hank Cohen told a congressional committee yesterday the Bush administration had not yet decided about the advisability of extending IMF facilities to South Africa

Conditions contained in US anti-apartheid legislation would have to be met before the US would vote in favour of any IMF programme, he said The issue was "under study"

Mr Cohen was responding to questions from a panel of the House of Representatives which has been considering the feasibility of imposing additional financial sanctions on South Africa

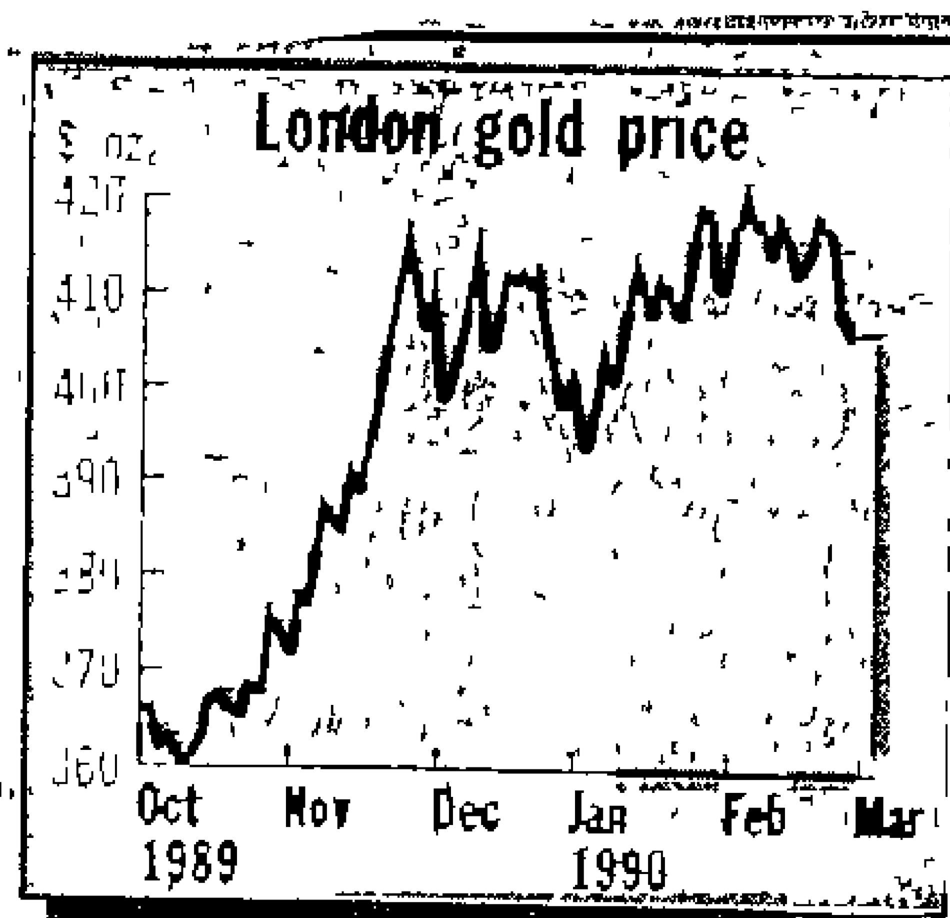
One of the proposed new sanctions would instruct the US representatives to the IMF to actively oppose the granting of any new loans to South Africa.

Several congressmen peppered Mr Cohen with questions about the prospects of such a loan in the near future, particularly as rumours have been circulating in Washington that the administration was considering supporting the granting of a R5 billion loan to South Africa to encourage Mr de Klerk

The administration has on several occasions said it believed Mr de Klerk's initiatives should be recognised, but it has agreed that it will not lift any sanctions until certain conditions laid down in the 1986 Comprehensive Anti-Apartheid Act (CAAA) have been met.

There is speculation that the Bush administration would use its influence to get South Africa a $1,9 billion (about R5 billion) loan which was approved in 1983 but never granted

US legislation prohibits the US representative to the IMF from voting in favour of granting loans to South Africa, unless the US Secretary of the Treasury certifies to Congress that South Africa is meeting a number of conditions.



Graphic FIONA KRUGH Source REUTERS

156

Gold edges up as dollar strengthens

B Day 2/3/90

MERVYN HARRIS

GOLD shrugged off a stronger dollar and reports of sales by the Soviet Union to come off its lows in Europe and close marginally higher in London at $407,75.

After slipping to five-week lows in six successive days of losses, analysts had expected the metal to test support at $400 before resuming its uptrend.

Zurich traders said they had seen the Soviet Union selling stocks at around $406 but they did not rule out a short covering rally after the metal bounced back from a day's low of $405,25.

The recovery was helped by comments from US Treasury under-secretary David Mulford that a US plan for the IMF to sell gold reserves to cover arrears on loans should not affect the metal's market price.

AP-DJ reported that Mulford strongly defended the proposal for IMF gold sales as part of a package to resolve loan arrears problems of about a dozen countries.

"We believe it is critical that regular IMF quota resources not be used to provide financing for eliminating the loan arrears problem," Mulford said.

If IMF members agree, gold sales would total 2-million to 3-million ounces.

The lower gold price and a further 2,2% fall on Tokyo's Nikkei index weighed on the JSE yesterday but trading was light in the absence of professionals because of the financial year end.

A stronger finrand helped support prices and the JSE overall index slipped 29 points to 3 055.

Boosted by sustained weakness of the mark and yen, the dollar closed in London at DM1,7110 from the previous DM1,6938 and at 149,40 yen compared with the previous 148,80 yen.

The Bank of Japan is estimated to have spent between $6bn and $7bn in defence of its currency this week, Reuter reports.

B/Day 2/3/90

Curnow earnings show decline of 34%

CURNOW felt the effects of the economic slowdown as earnings for the 12 months ended December 31 declined by 34% to 4,3c.

The dividend was also lowered to 1,75c (3,0c)

The group is a distributor of automotive paints and refinishing products to panelbeaters and the DIY market. Turnover advanced to R33,9m (R27,5m), but operating profit declined to R2,2m (R2,7m).

The directors indicate the streamlining activities of the group have taken longer than expected, explaining the disappointing profit performance.

IMF says gold bear market is over

WASHINGTON — The International Monetary Fund (IMF) said the "moderate" $9,15 per ounce decline in the market price for gold last year, and other developments, suggest the two-year gold bear market has come to an end"

The IMF review of gold market developments over the past several years was published in the current issue of the IMF Survey B/Day 2/3/90

The report did not quote the views of any IMF officials, but attributed most of the comments about price trends to unidentified "market analysts"

Last year, the report said, the $9,15 per ounce decline in the price of gold in the London market was moderate compared "with the much sharper decline of $76,35 an ounce in 1988 and $95,60 an ounce in 1987"

After noting the gold prices averaged $410 an ounce in the London market at the close of 1989, the IMF report said some analysts were estimating that the market price for bullion could reach $450 an ounce in 1990.

The IMF itself is sitting on 103-million ounces of gold, subscribed earlier by member countries. But it neither buys nor sells gold (156)

The report said market analysts are forecasting higher gold prices in 1990 because, "in their view, lingering concerns over accelerating inflation, uncertainties over developments in Eastern Europe, and indications of an increase in demand for gold for investment purposes will continue to provide some support for gold prices" AP-DJ.

Stals optimistic that country's debt burden will be eased

STAR 3/3/90 **SVEN LUNSCHE** (156)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ministers to meet over European Bank issues

156

B (0a1 4/4/90

WASHINGTON — Finance ministers from the Group of Seven major industrial nations get a chance this weekend to settle critical issues concerning a new European development bank and a funding increase for the IMF

Amid the turbulence on financial markets in recent months, the ministers and central bank governors from France, Italy, Britain, the US, Canada, Japan and West Germany will also be able to discuss international currency exchange rate co-ordination

US Treasury Secretary Nicholas Brady told Congress in Washington recently that the US wanted to join the proposed European Bank for Reconstruction and Development (EBRD).

Share

A negotiating session on the bank, which would help Eastern European countries move toward multi-party democracies and market economies, is due to be held in Paris on Sunday and Monday, immediately after the G-7 ministerial meeting.

Under-Secretary of Treasury David Mulford, chief US negotiator on the proposed bank, has said the US does not want the Soviet Union, with its huge economy, to grab the lion's share of the new bank's lending.

The other major industrial countries have an 8,5% share in the bank, but EC countries would control it with a 51% share.

The bank is expected to start with about $12bn in capital and a US commitment of $1,21bn

Details where the bank will be located and who will head it have not yet been worked out

The G-7 ministers will also be discussing a plan that could pave the way for a funding increase for the IMF and a "carrot and stick" approach to the issue of delinquent loans, or arrears, an official said.

It would involve a compromise plan involving the use of gold held by the IMF to deal with the arrears of 11 countries, an official said

Delinquent countries owe more than $4bn in back payments to the agency

The US would like, as part of the quota increase, an accord to amend the IMF's articles of agreement to allow the institution to suspend members who have accumulated arrears and are not co-operating to work them out

It is felt that suspension would be easier than the current process of throwing them out, which requires approval by 85% of the membership, when they do not pay their bills

Only Czechoslovakia has undergone compulsory withdrawal

Two other countries, Liberia and Sudan, could face it soon.

A final agreement on the increase may be ready for signing at the IMF-/World Bank Interim Committee meeting scheduled for May 4 to 8 in Washington. — Sapa-Reuter

B Day 18/4/90.

Cracks in Kremlin wall

B Day 18/4/90

MOSCOW — The influential Young Communist League (Komsomol) accused the Kremlin of trying to stifle debate in the Communist Party as details emerged yesterday of possible plans to purge radicals.

The Komsomol yesterday condemned a recent open letter by the Party's Central Committee which denounced an emerging radical faction, the "Democratic Platform".

While the Soviet Communist Party has kept its grip on state power in the wake of Mikhail Gorbachev's reforms, the resolution of the Komsomol — breeding ground for future party members — underlined growing divisions

The party looks set for a major split as it approaches a key congress in July, a split which could transform the political situation following parliament's decision to open the way to a multi-party system

Platform supporters advocate radical economic reforms and are already talking about creating a breakaway social democratic party — Sapa-Reuter

7 European countries require a 'jump-start'

156

WASHINGTON — Seven Eastern and Central European countries need financial help to "jump-start" their economies, but commercial banks in the US, Canada, Japan and Western European nations are not going to do much of the jumping, according to Horst Schulmann, managing director of the Institute of International Finance (IIF)

"Commercial banks are unlikely to take the lead in providing finance to these countries," Schulmann said in releasing a new IIF report on the economic reforms under way in Poland, Czechoslovakia, Hungary, East Germany, Romania, Bulgaria and Yugoslavia

Referring to the 180 commercial banks that are members of the IIF, the research group said these international lenders "are most likely to provide support for corporate customers doing business in Central and Eastern Europe"

"They will be looking primarily for opportunities in trade, leasing and project financing," the IIF report added

"The scope for bank lending will increase as (Eastern European) countries permit foreign banks to engage in local operations"

At this stage of the reform process in Eastern Europe, Schulmann told a Press briefing, the "official" international lenders, including governments of Western nations, the IMF, the World Bank and the New European Bank for Reconstruction and Development (EBRD) must take the lead in channelling public funds into Eastern and Central European countries striving to carry out market-related economic reforms

He said this, in turn, would encourage more private international lending and equity investments in Eastern European countries

Schulmann said it was important that the seven Eastern and Central European countries, which had $116,8bn in outstanding convertible-currency external debts at the end of 1989, should steer clear of a massive build-up in their "sovereign" debts to foreign commercial banks, such as contributed to the debt crisis in Latin America in the 1980s

Debt-service

Despite the $116,8bn in outstanding external convertible-currency debts ($56,1bn of which was owed to commercial bank creditors at the end of last year), the IIF report said "debt-service is substantially more moderate for the seven countries taken as a group than for Latin America".

Interest payments on external debts, the report added, had been taking about 15% of their convertible-currency export earnings, compared with almost 30% in Latin America In developing countries, this percentage was only 6% of export earnings, the report said

According to the IIF, the $116,9bn in external hard-currency debts of the seven countries in 1989 were

Poland, $40,43bn, East Germany, $21,65bn, Hungary, $19,71bn, Yugoslavia, $17,6bn, Bulgaria, $10bn, Czechoslovakia, $7,23bn, and Romania, only about $200m — AP-DJ

F/M 27/4/90 (156)

INTERNATIONAL OUTLOOK

Inflation pressures

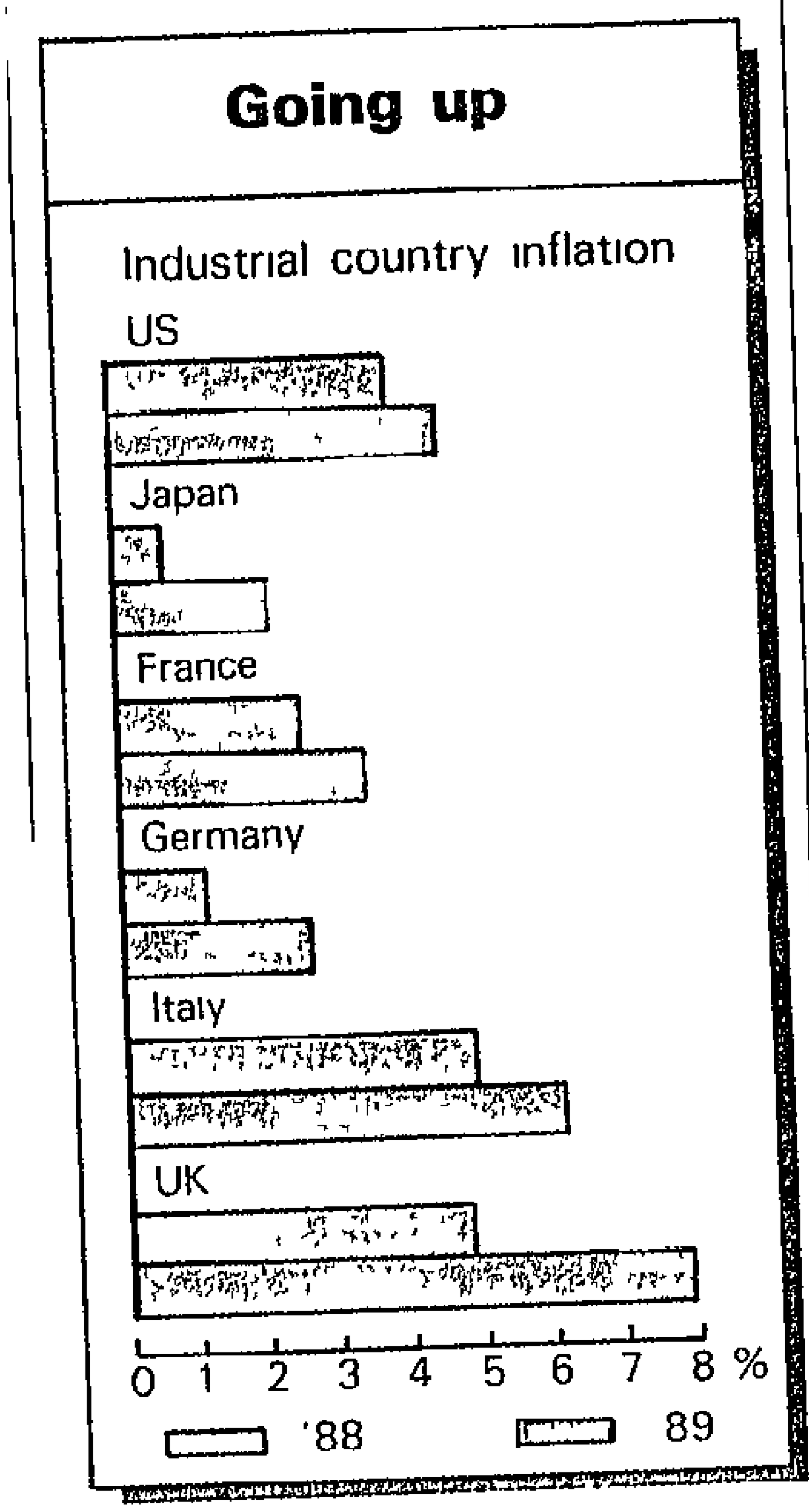
All industrial countries reporting to the IMF registered gains in industrial output in 1989 Their combined output rose for the seventh straight year, to 32% above the recessionary year of 1982 Biggest rises were in Japan with 6% and West Germany with 4,7%

But it seems unlikely that the economic upswing, which has now lasted eight years, has long to run Inflation is becoming increasingly menacing and measures to counter this resurgence will cut into future output

IMF statistics show inflation in major industrial countries averaged 4,5% last year (1988 3,4%) With figures still not available from New Zealand, the only countries to report declines were Iceland, from 25,8% to 20,8% and Norway, 6,7% to 4,6% There were big increases in the UK, with 7,8% (4,9%), Switzerland 3,2% (1,9%), Spain 6,8% (4,8%), Portugal 12,6% (9,6%), Ireland 4,1% (2,2%), West Germany 2,8% (1,3%) and Japan 2,3% (0,7%)

In the western hemisphere (South America and the Caribbean) four-figure inflation is becoming fashionable Nicaragua, previously sole member of this league, has been joined by Argentina with 3 079% (343%), Brazil 1 287% (682%) and Peru 3 398% (667%) Nicaragua showed some improvement, 1988's 10 205% falling to 4 267% There was also a big drop in Mexico (20% from 114%)

Inflation in the region averaged nearly 353% (212%)



Finance ministers meet to debate IMF resources

B10cu 2/5/90

WASHINGTON — Finance ministers of IMF member countries have been talking so long about expanding the IMF's financial resources that everything should fall in place by May 7, during closed-door sessions of the policy-making IMF interim committee.

But officials say so many critical issues remain to be resolved that it may not happen that way.

Finance ministers and officials of developing countries will get together at the IMF this weekend.

On Sunday afternoon, the Group of Seven finance ministers and central bankers representing the US, Japan, West Germany, Britain, France, Italy and Canada, will hold their own get-together. (156)

On Monday, the IMF interim committee, made up of both groups, will meet at the IMF headquarters.

One of the biggest problems still lurking in the background is that the US, in particular, has insisted on changes in the IMF basic charter on how to discipline member countries with loan arrears.

If it is agreed that an increase of $60bn or more in the IMF's regular financial resources cannot be accomplished without changes to the IMF's charter, such a decision could add many months to the already time-consuming process of ratifying a general increase in member country quotas or subscriptions.

This sort of linkage worries not only developing countries, which have been the IMF's main customers for loans. It also is troubling Japan, which has started to show impatience about when it will be allowed, through a realignment of IMF voting power, to move up to the second-ranking position, just behind the US and just ahead of West Germany. — AP-DJ.

The Star
Finance

Star 7/5/90

156

IMF forecasts steady growth for industrial world

WASHINGTON — Current economic policies should ensure that the industrialised countries continue to grow over the next few years at around the 2,75 to 3 percent envisaged for 1990-91, the International Monetary Fund says

In its latest half yearly World Economic Outlook, the IMF says inflation will tend to moderate, but the balance of risks lies more on the side of higher inflation than lower growth.

Looking at the world overall, it says the rate of expansion in 1990 could be the lowest since 1982 But there are no signs that the slowdown will be as severe as in that year, when world output rose by only 0,5 percent.

Instead, it forecasts that world growth will moderate to about 2,25 percent this year from 3 percent in 1989 before recovering to 3 percent in 1991

The IMF warns that there could be upward pressure on interest rates in the short to medium term which would increase the burdens of heavily indebted countries.

The report says increased investment as a result of unification could cut West Germany's current account surplus considerably This underlines the need for progress in reducing the global current account imbalances, by increased saving in deficit countries

Integration in the European Community and completion of the single market in 1992 should boost investment and output in Europe and could have an important impact on other areas

The prospect of fundamental reforms in the Soviet Union and eastern Europe could improve these countries' economic performances substantially over the medium term although economic activity and employment would be likely to be weak initially

Output in eastern Europe and the Soviet Union may have decreased slightly in 1989 and could fall by 1,5 to 2 percent this year However, the IMF backs the idea of rapidly implementing market-oriented reforms as in Poland against a more gradual approach

It cautions against exaggerated expectations from the peace dividend that should arise from cuts in defence spending The budget savings resulting from such cuts may not be large over the medium to long term

Defence cuts could produce falls in the ratio of government debt to gross national product, particularly in the US, Britain and France But public discussion in the US has focused on using the peace dividend for increased spending on education, drug enforcement and the environment.

US federal deficit could remain substantial in the first half of the 1990s The IMF's own projections see the deficit falling to $74 billion in 1995 from $125 billion in the 1990 fiscal year

The position of the heavily indebted developing countries remains extremely difficult

The Fund forecasts growth in the developing countries will stay around last year's 3 percent level in 1990 before recovering to 4,5 percent in 1991 But this depends critically on the more effective implementation of stabilisation and adjustment programmes by the debtors.

The Fund's projections incorporate such expectations For example, the outlook envisages a sharp fall in the annual average consumer price inflation among the western hemisphere developing countries of Latin America from 531 percent in 1989 to 28 percent in 1991 and a drop in average inflation among European developing countries such as Poland and Yugoslavia to 19 percent next year from 170 percent in 1989

Drastic measures

But the IMF says the stabilisation of inflation is neither costless nor easy In most cases, success has come only with drastic measures after several failures. The two key requirements, it says, are to establish credibility and to establish consensus in favour of stabilisation

The report also highlights the Fund's concern about inflation in the industrialised world

It is not a coincidence that the reduction of inflation in the industrial countries has been accompanied by an exceptionally long expansion of employment and output, the IMF says

However, it is cautiously optimistic that consumer price inflation in the industrial countries would fall to 3,5 percent in 1991 after rising by one percentage point to 4,5 percent last year.

But continued monetary restraint will be required and this will mean the persistence of relatively high real interest rates.

Lower interest rates will only be achieved if monetary policy is strongly supported by fiscal action aimed at raising national savings, especially in countries with big budget deficits such as the US, Canada, Spain and Italy

The elimination of inflation will bring about a large and lasting improvement in economic performance, the IMF says — Financial Times

Table 1. Economic growth in the OECD (% y/y)

	1987	1988	1989*	1990†	1st half 1990†	2nd half 1990†
USA	3,7	4,4	2,5	1,8	1,5	1,9
Japan	4,4	5,8	4,3	4,4	4,7	4,1
West Germany	1,7	3,7	4,1	3,6	3,4	3,7
OECD	3,5	4,4	3,6	2,7	2,5	2,8

*Estimate †Forecast

The table shows the forecast growth in the key industrialised nations represented by the OECD. The estimates are from the United Building Societies latest Economic Monitor.

World warned on effect of tight monetary policy

WASHINGTON — Excessive reliance by governments on tight monetary policy to master inflation can lead to an upward spiral of interest rates that would weaken growth prospects for the world economy, French Economy Minister Pierre Beregovoy has warned.

Addressing the policy-making interim committee of the International Monetary Fund (IMF) on Monday, Beregovoy said it was essential that the industrialised countries reduced their drain on the world's savings. Blday 1/5/90

This could be done if they intensified their efforts to reduce budget deficits and to correct their external imbalances, he said.

Echoing the view of the IMF, which has said world growth was being held back by the low level of savings, Beregovoy underlined the "immense" financing that would be needed in the coming years to modernise the industrial countries; to rebuild the economies of Eastern Europe; and, above all, to foster growth in the Third World.

Beregovoy said he approved of plans to increase the IMF's regular resources by 50%, even though he would have preferred to see a bigger increase. (1563)

Referring to a compromise agreement between the UK and France under which both countries will rank third in the IMF, Beregovoy expressed his thanks to British Chancellor of the Exchequer John Major for his "conciliatory spirit".

France and the UK had been deadlocked on the issue for months because of France's refusal to give up its fourth position among the fund's biggest members.

Under a preliminary long-term accord Britain will temporarily transfer part of its IMF quota to France.

Foot-dragging by some governments has meant the current IMF quota review is overdue.

Beregovoy said the next review of the IMF's quotas should take place by 1994 "at the latest". — AP-DJ.

IMF 'close to compromise'

Cape Times 7/5/90

156

WASHINGTON — Major industrial nations appeared close to a compromise yesterday in a long-running dispute about topping up the resources of the International Monetary Fund (IMF)

But the accord that Group of Seven (G-7) finance ministers are thrashing out in a meeting on Capitol Hill probably won't satisfy Third World nations, who feel their cash needs may run short as money floods towards new East European democracies

Officials from (G-7) the US, Japan, West Germany, France, Britain, Italy and Canada are also due to review the state of the world economy at their talks and look at the implications of the planned German monetary union

West German officials made clear they felt that fears on international capital markets that monetary union would boost inflation and drive up interest rates were unjustified

West German Finance Minister Theo Waigel told journalists in Washington ahead of the G-7 meeting that he expected the industrial nations would agree on a rise of about 50% in the IMF's $120bn resources

Developing nations want a rise of at least two-thirds in the IMF funds and the IMF itself had originally pushed for a doubling as the cash demands of the East bloc rose

But Waigel said, "we can presume there will be a rise of about 50% We (West Germany) had wanted 66%, but we knew that would not be accepted by the US"

The US, backed by Britain and Saudi Arabia, had opposed a more generous allocation of funds

A leading spokesman for the developing world, Zimbabwe Finance Minister Bernard Chidzero, warned the West not to syphon funds away from the Third World to eastern Europe

Chidzero, chairman of the IMF/World Bank Development Committee, a developing nation lobby, told a news conference yesterday, "I hope the international community will be wiser and realise that syphoning off resources into Eastern Europe will create a very dangerous situation — explosive"

"The north-south relationship will be soured and there will be division and conflict."

Any G-7 accord on IMF funding will be put to the IMF's policy-making Interim Committee which is holding its traditional spring meeting today

Waigel indicated that a compromise would also be reached over the thorny question of national rankings within the IMF

Karl Otto Poehl, the president of the West German central bank, the Bundesbank, told journalists that money markets were blowing up the inflationary side of German monetary union

"I believe that this worry that the union of the two German states has to lead to higher interest rates is somewhat exaggerated," Poehl said

He also did not expect East Germans to go out on an immediate spending spree once they start getting paid in hard West German marks when union takes place on July 2

Currency market developments, usually a focus of G-7 meetings, are not likely to rank high this time round, especially as the officials met only a month ago in Paris,

G-7 ministers agreed then to prop up the weak Japanese yen, but monetary sources said the currency's recent stability meant the yen was not likely to be a major topic — Sapa-Reuter lc growth at 1,5% for 1989 — AP-DJ

Pressure on G-7 nations to increase IMF resources

BiDay 7/5/90 (156)

WASHINGTON — Leading industrial nations are coming under increasing pressure to set aside their squabbles and agree to boost the resources of the IMF in a show of support for the Third World and emerging democracies of Eastern Europe, reports Sapa-Reuter

But even if finance ministers succeed in burying their differences at a meeting on Capitol Hill scheduled to begin yesterday, they are unlikely to pump enough cash into the IMF to satisfy Latin American and African demands

The Group of Seven (G-7) nations — the US, Japan, West Germany, France, Britain, Canada and Italy — also face tricky decisions on monetary policy as worries persist that German unification could spark world inflation

Monetary officials argue that a new upsurge in inflation, if not kept in check, would lead to a sharp rise in interest rates and recession

The seven's traditional focus on interest rates and currency markets is likely to be overshadowed by Third World demands that they agree on the outline of a deal to boost the "subscription quotas" or resources of the IMF

Michel Camdessus, managing director of the Fund who, two years ago, launched a campaign to double its $120bn of quotas, stepped up pressure on Saturday, warning that an increase of just 50% could spark a cash shortage.

AP-DJ reports that Camdessus warned that the IMF might have to carry out temporary borrowings from its members to top up its financial resources until a planned increase in its members' quotas wascompleted

He noted that 19 of the fund's executive directors favoured an increase of more than 70%.

If there were no unexpected positive developments in the balance of payments of the world's shakiest economies, he said, the IMF would have to resort to new borrowings

The IMF's quotas form the pool of funds from which credits are made to developing countries, but negotiations on an increase have been punctuated by disputes and delays

Those differences will have to be set aside if final agreement is to be reached during negotiations today

FINANCE

(156)

G-7 calls for 50% rise in IMF contributions

B Day 8/5/90

WASHINGTON — Representatives of the Group of Seven (G-7) major industrialised nations called at the weekend for a 50% increase in the funds available to the IMF.

The finance ministers and central bankers also reaffirmed their concern about the weakness of the yen, but indicated that they would continue to rely on foreign exchange market intervention, rather than interest rate moves, to support the Japanese currency.

After a six-hour meeting, the ministers apparently ended months of wrangling over the respective rankings of France and Britain within the IMF, clearing the way for a $60bn boost in the fund's lending resources.

Under the arrangement, Japan and West Germany would rank second with equal shares of slightly more than 6% Britain and France would likely rank fourth with equal shares of about 5,5% each The US would remain the largest shareholder with slightly more than 19%

G-7 ministers openly disagreed on the significance of the statement that the yen had stabilised since early April, but that its current level may have undesirable consequences for global adjustment.

An April 7 statement issued in Paris said that the G-7 had discussed the decline of the yen against other currencies and its undesirable consequences for global adjustment and agreed to keep developments under review.

Sunday's communique stated that the G-7 had noted the yen had stabilised since then but it still felt the present level would affect global adjustment.

Japan's Vice-Finance Minister for International Affairs Makoto Utsumi said that despite the yen's current stability in a narrow range below 160 yen to the dollar, the Japanese currency's weakness at that level remained a threat to further reductions of global economic imbalances

Bank of Japan Governor Mieno said that strong co-ordinated intervention would be used to put the yen rate back in line.

The West German delegation accomplished most of its goals recognition that economic and monetary union with East Germany would produce growth and not inflation, an agreement on at least a modest IMF quota rise, and very little change with respect to Japan's request for help to support its sagging currency.

They were also pleased that unification would contribute to non-inflationary global growth — AP-DJ

IMF approves $60bn deal after lengthy negotiations

b/Day 9/5/90 (156)

WASHINGTON — The IMF yesterday put its seal of approval on a $60bn deal to help out the fledgling democracies of Eastern Europe and the needy of the Third World.

In a communique issued after marathon talks, the IMF said it had won the support of its 152 member nations to increase its capital base by 50%

Both rich and poor nations made compromises in reaching the pact, that came after two years of negotiations

Industrial nations cleared the way for the accord on Sunday by setting aside their internal squabbles over their voting power at the fund.

The new shape of the fund for the 1990s sees the US remaining in the top spot, but with Japan moving up from fifth place to joint second with West Germany

Borrowings

The resolution will provide the IMF with financing to deal with the festering $1,3-trillion debt crisis and the emergence of Eastern Europe as a market-based economy over the next few years.

Canadian Finance Minister Michael Wilson, who is chairman of the IMF's policy-making interim committee, said yesterday the IMF would not need to arrange any special borrowings from its member countries between now and the end of 1991, when the $60bn general increase was to take effect

Wilson was asked at a Press conference if the IMF would need to borrow additional money from its richer member nations as the increase in subscriptions was smaller than the originally quoted amount

"We don't see that at this point," Wilson replied. But this would be considered if there were problems with the IMF's capacity to approve loans to member nations.

There was no problem right now about the IMF's "liquidity", a term relating to readily-useable currencies the IMF could use to cover its loan disbursements to borrowing nations, Wilson stressed

The IMF has agreed that countries with arrears to the IMF which do not co-operate in trying to correct the situation, should have all their voting and related rights in the fund suspended

Another review of the IMF's quotas will be carried out not later than March 1993, though this could be done earlier if required

At present, the IMF's quotas total $120bn The 50% increase would boost them to $180bn The 50% increase still falls short of the 100% increase that had been sought by the IMF and some of its biggest member countries.

The arrears question had been the source of some friction at the meeting of the committee on Monday, participants said

Just 11 of the fund's member countries have overdue loan repayments totalling more than $4bn, but some of the biggest member countries were worried that other nations might be encouraged to fall behind in their loan obligations if no real punitive measures were enacted

The fund committee agreed with a proposal that would allow the fund to pledge the use of up to 3-million ounces of its gold stock, if needed, as an additional guarantee for an IMF fund that provides financial aid on very concessional terms to member countries with severe economic problems

Resources from the fund will be used to finance programmes to help countries in arrears work their way back to eligibility for new loans while their membership rights are suspended.

The US, the UK and some other IMF member countries were behind the decision to set aside the gold as an additional security

IMF MD Michel Camdessus has stressed that the gold will only be sold as a last line line of defence if no other solution can be found for countries in arrears

In what observers said was a significant concession to developing countries, the committee agreed that suspension of countries with a chronic arrears problem should require a 70% majority of the total voting power in the IMF's executive board

It said it had also endorsed a plan that would shift more of the burden associated with building up a special $1,3bn pool to help finance the reduction of loan arrears on to the IMF creditor countries

This burden-sharing arrangement also requires the IMF to increase its charges for regular loans to all member countries that need help in financing their balance of payments gap

Savings

The committee said prospects for economic growth were good, and said this would put pressure on demand for capital in the industrialised countries

It urged the IMF's biggest members to boost national savings to lessen pressure on interest rates, saying this would promote investment and alleviate debt burdens

Without identifying them, the committee said it was imperative that some governments act on reducing their budget deficits

The committee said Eastern Europe's reforms "deserve support, but not at the expense of the developing countries". — Sapa-Reuter, AP-DJ.

GOVERNMENT DEFICITS F/M 11/5/10

Going down (156)

In most industrial countries the central governments' deficits before borrowing have been steadily declining since the average for 22 countries peaked at 5,7% of GDP in 1983 The IMF's 1989 edition of *Government Finance Statistics Yearbook* records that,

F/M 11/5/90 (156)

by 1988, it was down to 3,5%.

"The US deficit, which was 6,2% of GDP in 1983, dropped sharply to an estimated 3,3% in 1988 In Japan the central government budget, which excludes social security and extra-budgetary operations, had a deficit of 4,8% of GDP in 1986 and 3,5% in 1987."

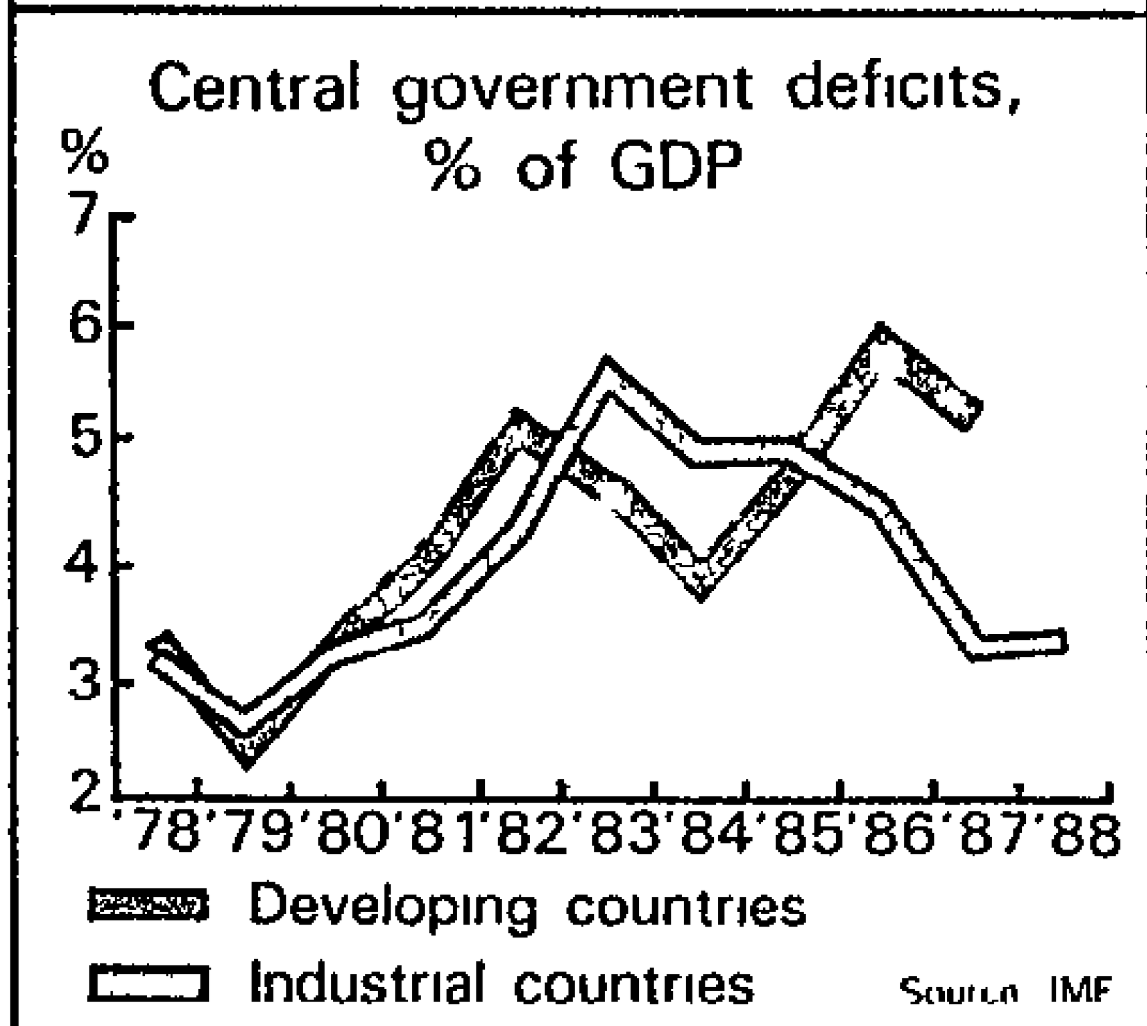
Industrial countries, which did not experience a decline in the deficit, were Italy, Norway and Portugal

In developing countries deficits averaged 5,4% of GDP in 1987 and were only slightly down from 6% in 1986. This was "somewhat above the levels typical of the Seventies. In Asia, for example, the deficit averaged 5% of GDP in 1987, compared with 3,9% annually from 1978 to 1980 More strikingly, developing countries in the Western Hemisphere had an average deficit of 7,2% of GDP in 1987, compared with 1,8% a year from 1978 to 1980."

Most African countries have maintained their fiscal deficit roughly at a constant share of GDP The Middle East has experienced fluctuations which make generalisation pointless — "Israel, for example, ran a deficit of more than 10% of GDP a year for the decade to 1984 yet in 1986 achieved a small surplus."

Most of the change has come in central government expenditure and net lending, with revenue changing little in most countries since 1981.

Dropping deficits



The *Yearbook* provides details of 124 countries on central government revenue, grants, expenditure, lending, financing, debt, social security funds and extra budgetary accounts. ■

IMF oversees Zambian aid

(156)

LUSAKA — Teams from the IMF and World Bank have arrived here to review Zambia's economic recovery plans following a pledge of support by donor countries last month.

Sources close to the ministry of finance said the two teams would help Zambia use an aid package of $450m worked out by donors at a meeting in Paris which approved its 1990-94 economic recovery plan.

"They are here essentially to see which way the money will go and to ensure everything is in place for the full implementation of the restructuring programme," said one source.

Zambia is faced with $7,2bn in external debt and falling living standards.

The plan commits Zambia to radical steps, including lifting a freeze on prices, cutting subsidies, trimming public services and introducing business incentives. — Reuter.

IMF F/M 25/5/90

Cold comfort

(156)

With commercial banks increasingly withdrawing as a source of funds for countries in trouble, the question is whether the IMF's 50% increase in resources to US$180bn will be enough The US, unwilling to stump up more because of budget problems, was the chief instigator in halving the additional deposits members must fork out, to US$60bn.

And, with the British, the Americans insisted that conditions for an "overdraft" with the IMF should be stiffened If the proposals, approved by the Interim Committee after three years of wrangling, are ratified by 85% of the 152 members, defaulting borrowers could face suspension from the fund

Up to now, the only sanction has been expulsion, a punishment considered too severe to be used Now 11 countries are overdue

Suspension will not mean the end of the road A defaulter, if suspended (it needs 70% of IMF members' approval), will have recourse to the Enhanced Structural Adjustment Facility to deal with arrears.

But this facility, a pool of $20bn funded by the 11 leading industrial economies and Saudi Arabia, is to all intents and purposes controlled by the US and technically outside the IMF — which can, however, use 3m oz of its remaining gold holdings as collateral for further borrowing.

Washington made strenuous efforts to dissuade anyone from thinking there will be any easing of IMF conditionality for helping countries in trouble Hence the expected moans from developing countries, voiced by Zimbabwe Finance Minister Bernard Chidzero, about the size of the increase — which will take another 18 months to come through — and the attitude that went with it, espe-

FM 25/5/90 · 156

cially as demands build up from the former communist economies of Europe

Meanwhile, the IMF has only about $30bn of its present $120bn total available. The slow grinding of the adjustment process in many of its borrowers has meant that what were supposed to have been short-term loans may have to be rolled over — and the quality of some of these assets is more than dubious

There was certainly naught for the comfort of international commercial banks, which are owed $18bn in arrears interest alone — three times the level of 1988 All they can do is wonder whether their write-offs (up to 80% in some cases) are enough

But their withdrawal inevitably means an increased role for the IMF and World Bank as well as the Paris Club (the main Western economies) With a lot of loans owed to governments — for example, 80% of Poland's $40bn — Club members are likely to be faced with more appeals for debt forgiveness, by turning them into grants-in-aid, as has already happened with some of the poorest developing countries in Africa

John Cavill

Soviet Foreign Minister Eduard Shevardnadze, left, shakes hands with US Secretary of State James Baker in Copenhagen, where the two were attending the Conference on Security and Co-operation in Europe meeting. Picture REUTER

Stretched IMF is rethinking multiple roles

156

B/Day 7/6/90

WASHINGTON — The International Monetary Fund (IMF), torn between Eastern Europe's new thirst for money and the southern hemisphere's old hunger for food, is reassessing its multiple roles.

The agency, set up to help nations with balance of payments problems, must now also try its hand at poverty relief and environmental damage control

But some monetary experts fear the agency's efforts to tackle an agenda which exceeds its original aims of helping with debt problems and promoting economic co-operation might be self-defeating

"Some people are worried the IMF will cease to exist in its key form if it moves too far away from its original role," said a monetary source.

The IMF's informal self-scrutiny has taken on a greater sense of urgency after a decision last month to pump an additional $60bn into the agency's coffers — a 50% capital increase

Officials say the debate centres on whether the IMF should continue to broaden its role or retrench and concentrate on fostering economic co-operation and achieving economic balance among countries.

The agency's duties have never been so great since the Third World debt crisis emerged in 1982. Although major industrial countries have enjoyed nearly a decade of economic expansion, grinding poverty dominates individual countries and sometimes entire regions

Latin America, with combined debts of $410bn, has made little progress Africa owes an estimated $226bn and remains in critical condition

Eastern Europe, which is lining up for massive help on its $95bn debt, will benefit from the new European Bank for Reconstruction and Development (EBRD) set up last month by 40 countries.

But the EBRD is geared mostly to helping the fledgling private sector in Eastern Europe, and its basic capital of $12bn is dwarfed by the IMF's capital increase alone

IMF strategists stress no region will be pushed aside by the needs of another, and MD Michel Camdessus has said the debt crisis will not take a back seat to the historic emergence of Eastern Europe. But internally there is festering concern that the pressures from Third World countries to help the poor and from western environmentalists to stop damage to the environment are stretching the agency well beyond its capabilities

The IMF considers itself to be "lean and mean," as one monetary source put it, with a work force of 1 700 against 6 000 at the World Bank, its sister agency for development finance Many see this comparatively slim structure as an asset which allows for greater agility in providing funds and recommending policies.

The capital increase agreed on at the IMF-World Bank meeting a month ago will make it easier for the fund to deal with its new duties Member countries have until June 28 to ratify the agreement, effective on December 30 1991 — Reuter.

Black business talks to IMF

W/Mail 22/6/90 (156)

By MZIMKULU MALUNGA

THE National African Federated Chamber of Commerce and Industry (Nafcoc) this week briefed an International Monetary Fund (IMF) delegation on the current state and constraints that black business has endured

Nafcoc members had earlier met the United Nations delegation which was visiting South Africa

According to the chamber's public affairs manager, Gabriel Mokgoko, delegates from the two international organisations, were told that even though black business contributed more than 15% of the gross domestic product (GDP) it still had not significant representation in major economic sectors such as mining, manufacturing, agriculture, construction as well as retail industries

"We told the IMF and UN delegates that black people, like anyone else, owe the country their contribution For too long they remained spectators while others, even outsiders, became actors," the said.

Mokgoko said the two groups were told that the country's economy needed an urgent restructuring so as to create the socio-economic order.

"Nafcoc stated that the South African economy had features of developed and undeveloped economics and that the perpetuation of this dualism posed a serious dangers for the country The underdeveloped component was mainly black while the developed was white," he said.

While Nafcoc recognised the determination of State President FW Klerk to move away from apartheid and create a new South Africa, there were still some problems standing on the way of the "viable entrepreneurial class" among black people

Uncertainty still restricting foreign loans, says Stals

5/7/90

PRETORIA — International banks have relaxed their attitudes towards South Africa but political uncertainty is still restricting long- term loans, Dr Chris Stals, governor of the Reserve Bank, said yesterday.

He said foreign banks no longer wanted to reduce loan exposure to South Africa or to withdraw, and the country had been able to roll over some maturing loans and improve access to short-term funding, such as trade finance

"But there are still too many uncertainties on where we are going on the political road for the banks to make new, long term commitments in South Africa," Dr Stals told Reuter.

"It would be a bit unrealistic for South Africa to expect, to rely on, to hope for a big inflow of long term capital in the near future," he said

International banks declared a boycott on new loans to South Africa in August 1985.

Despite a more relaxed attitude generally towards South Africa, it did not seem appropriate yet to approach the International Monetary Fund (IMF), Dr Stals said.

Analysts say that as long as sanctions remained an international political issue, Pretoria is unlikely to turn to the IMF, which is affiliated to the United Nations. "The timing should be right," one analyst said.

Dr Stals said despite a slump in recent months in world prices for gold, South Africa's chief export, the country was over the worst of its debt problems for this year

A decline in capital outflows and lower import bills due to a slowdown in the economy would help offset the gold slump and avert pressure on the balance of payments.

It was expected South Africa would generate a surplus on its current account of R5 billion to R6 billion in 1990, enabling it to meet its debt obligations comfortably.

Foreign debt totals about $20 billion. — Reuter

Country gripped by industrial unrest

Argus 6/7/90 (15c)

TENS of thousands of workers are on strike as industrial unrest sweeps the country, amid several incidents of violence and allegations of intimidation

In Port Elizabeth there were ugly scenes on Wednesday when workers walked out of the Delta plant and were dispersed by teargas Two men were run over by a Casspir personnel carrier and taken to hospital

Police said 38 people had been arrested on charges of taking part in an illegal gathering

Stun grenades

Also in Port Elizabeth, police used stun grenades to disperse a crowd toyi-toying outside Stellenbosch Farmers' Wineries plant yesterday and 74 strikers were arrested as the national lock-out against members of the National Union of Wine, Spirits and Allied Workers' Union in the liquor industry continued

Among the hardest hit is the Southern Sun hotel group, where about 5 000 workers — many of them staging sit-ins at 35 hotels — are on strike in an attempt to force the management to improve its offer of an across-the-board monthly increase of R100

The South African Catering, Commercial and Allied Workers' Union (Saccawu) intends fighting an interdict granted yesterday in the Pretoria Supreme Court to remove strikers from 19 Southern Sun/Holiday Inn hotels in the Transvaal

Holed up

Strikers holed up without food or toilet facilities in the Cape Sun in Cape Town's central business district were finally allowed out to buy food last night

The strikers had been without food or facilities in the hotel's staff canteen since Tuesday when the strike started.

In Umtata about 80 workers at the Umtata Holiday Inn joined the strike, as did 270 Saccawu members at the Elizabeth Sun and Holiday Inn in Port Elizabeth

In Bellville the City Council today broke off negotiations with 500 cleansing, parks and roads staff as the municipal strike entered its second day

A South African Municipal Workers' Union spokesman said a decision had been taken to continue the strike because the council refused to meet their minimum wage demand of R800 a month, offering instead R465 a month.

There is no sign of a solution to the strike by 3 000 Port Elizabeth municipal workers Strikers voted unanimously not to return to work until they had been given a firm offer

Talks are being held to try to settle the strike at Port Elizabeth hospitals where medical services at the Livingstone and Dora Nginza have been seriously curtailed

The Delta Motor Corporation in Port Elizabeth has shut down its manufacturing and assembly plant until further notice The decision follows Wednesday's walkout by employees who returned to the plant yesterday but refused to work.

At Firestone the entire labour force embarked on a brief sit-in yesterday but work was expected to resume today after agreement on an overtime ban

In Johannesburg a sleep-in was staged at Checkers Stores head office by Saccawu members last night after the management refused to meet them in a last-ditch attempt to avoid a legal strike

Eighty percent of Saccawu's membership of about 9 500 called for a strike in a nationwide ballot yesterday — Staff Reporters, Argus Correspondents and Sapa

Picture DANA le ROUX, The Argus

LOCKED-IN: Saccawu members wave to colleagues who were locked into the canteen (arrowed) at the Inn on the Square yesterday.

156

IMF concerned over SA's inflation rate

GRETA STEYN

THE IMF delegation which visited SA last month expressed concern over the inflationary effects of accommodating new economic demands in a post-apartheid SA

The IMF's views on SA, written in a confidential report, is common knowledge in government circles Talk is that the report emphasised the urgent need to reduce SA's inflation rate now — so that any rise in the rate resulting from greater claims on the available resources will come off a low base.

SA's newly appointed representative at the IMF in Washington, Frans le Roux, declined to confirm the IMF's view but said the recent visit, and report, had been "one of the most positive in years" An IMF delegation visits every member country annually.

Le Roux, who headed government's tax advisory committee before his appointment as IMF representative, leaves for Washington at the end of this week He takes over from Eltie Links, who moves to Zurich to cultivate ties with European banks

SA is in the unusual position of having a permanent representative at the IMF — the result of its political isolation The country has no access to IMF aid in times of balance of payments troubles as US legislation requires the Americans to veto any proposal of aid for SA Rumours have been rife that this obstacle could be lifted as SA has met virtually all the criteria set by the US. However Le Roux said a change on this front was not expected

"SA probably needs the IMF's advice now more than it needs its cash Rising expectations in a new SA will place an enormous burden on the country's economy, with massive demands on government spending The IMF's discipline will help SA keep on the straight and narrow in its transitional phase "

● LE ROUX

Le Roux said SA's continued membership of the IMF was vital even though no aid was forthcoming.

There was an increasing realisation that SA had an essential role to play in an African context The road away from isolation in the IMF probably lay via Africa

IMF figures confirm world trade slowdown

WASHINGTON — World trade grew last year, but much more slowly than in the past two years, the IMF says.

The growth was 8,6%, compared with nearly 15% in 1988 and almost 19% in 1987, according to an article in the IMF Survey, which was made available this week in advance of distribution next month.

World exports for 1989 totalled a record $2,912-trillion for 161 countries, up from the $2,683-trillion of 1988 and $2,341-trillion in 1987, the article said This did not include trade of the Soviet Union and a few other countries that do not belong to the fund

The fund said all economic activity grew more slowly in 1989. It cited as important developments an increase in US exports by $44bn and in Japan's imports of $22bn. Japan's imports have been increasing at an average rate of 18% over the past three years, it said

The increase corresponds with IMF's advice that Japan needs to increase its imports to reduce its surplus in world trade and give its people a better standard of living

Advice to the US has emphasised a need to reduce its deficit in world trade — $128,937bn in 1989, according to the fund — as well as its budget deficit

B Day 18/7/90

Decline

156

"Although the US trade deficit and the Japanese trade surplus continued to decline, the sizeable trade surplus of the Federal Republic of Germany remained practically unchanged .. " the article said

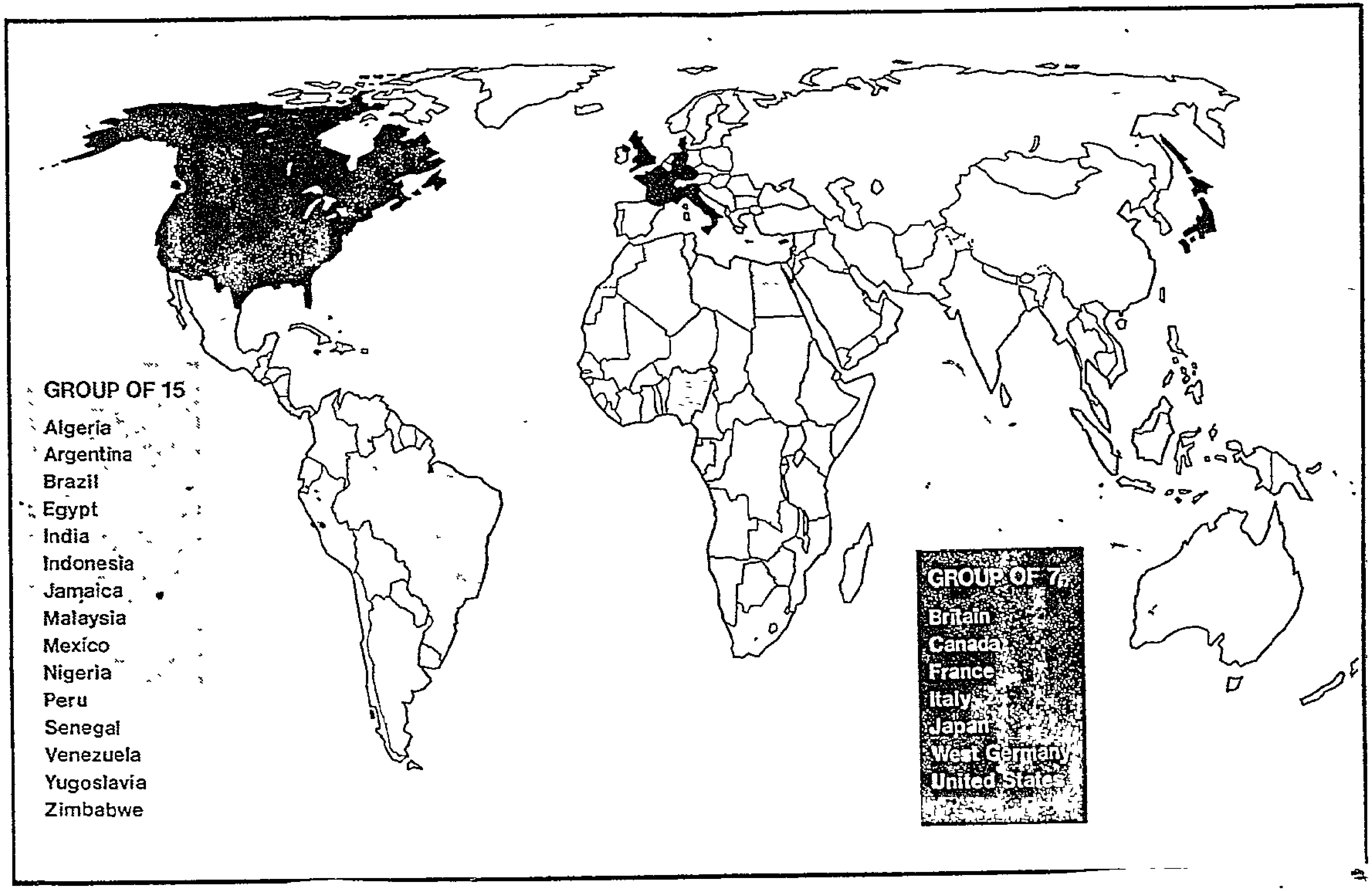
"The shift in the position of the US reflected the increased competitiveness of US exports owing partly to the dollar decline over several years. The US gain has been mainly at the expense of Japan, whose share has fallen to 9,4% in 1989 from 10,7% of world exports in 1987."

The survey said Italy's exports and imports both recorded a strong increase for 1989 and its trade deficit increased markedly, as did those of Australia and Spain.

Third World trade grew more rapidly than trade of the industrial countries, but more slowly than in 1988

Imports of the Soviet Union and other non-member countries grew by a strong 12%, much more than the 5,5% increase in their exports — AP-DJ

W/E Mail 27/7 - 29/7/90 156



The seven most industrialised nations are overshadowed by the world's 15 poorest countries Graphic GEMINI NEWS SERVICE

W/E Mail 27/7 - 29/7/90 156

Economic recovery in the Third World impossible without stable export prices

Changed policies are not enough to stimulate the economies of poorer countries, says the United Nations in its 1990 World Economic Survey. ALAN HIRSCH examines how the advanced industrial democracies will have to adapt to help the Third World

EARLIER this year the United Nations General Assembly adopted a special declaration on "international economic co-operation and development" for the 1990s. Not surprisingly the UN reflected the predominance of less developed countries in its make up by calling for more economic aid, especially for "marginalised countries", and for stability of international commodity prices.

Similar policy prescriptions have been put forward on behalf of Third World countries for decades. But even a few years ago a Third World economist would have been surprised to see the UN also calling for countries "to adapt their national policies to facilitate open exchange and flexible responses to the changing world economy".

The acceptance of free market international relations and anti-statist domestic reform in the statement, and in the UN's 1990 World Economic Survey reflects major changes in the world economy in the 1980s, and changes in perceptions of development economists.

When the World Bank's 1981 Berg Report on accelerated development in sub-Saharan Africa called for the opening of African economies to the free market it was widely met with scepticism, and the suspicion that it only reflected the interests of the capitalist economies.

Each time the International Monetary Fund (IMF) imposed a "structural adjustment programme" on recipients of emergency loans, many economists suspected the conditions on cutting the role of the state in the economy, and loosening exchange and trade controls, were designed to serve the interests of the economies that control the IMF.

Many thought freer trade and money flows, and weaker state intervention would simply benefit the West's transnational banks and corporations. The economic power of rich countries and big corporations was being strengthened at the expense of the poor country that went to the IMF for assistance, it seemed.

But the wider acceptance today of freer international economic relations and more subtle economic roles for government does not only come from the recognition that these policies have helped regenerate some Third World economies. It also comes from consideration of developments in the advanced capitalist economies and in the socialist economies of Europe and Asia.

Ironically, the greatest threat to free international exchange in the 1990s would seem to come, not from Third World protectionism, but from the advanced capitalist economies. The UN report reflects this in terms of the debate between "multilateralism" and "bilateralism" in world trade.

General Agreement on Tariffs and Trade (Gatt) is the organ of multilateral trade agreements. Gatt was formed at the end of World War II in recognition of the role played by the collapse of world trade in the Great Depression of the 1930s. At first it was a relatively small club of industrialised counties backing freer world trade, but it now has scores of Third World and socialist country members. The Soviet Union has observer status in Gatt.

Gatt is currently reaching the end of the four-year Uruguay Round of negotiations, the seventh series, and the most ambitious. Previously, agricultural trade and trade in services and intellectual property were not covered by Gatt agreements.

Points of contention in Gatt negotiations include American proposals to target anti-dumping measures (dumping is selling off exports at uneconomically low prices) against particular countries, opposed by the newly industrialised countries, European objections to American proposals to eliminate all agricultural subsidies over 10 years, and the resistance of industrialised countries to eliminating duties on "tropical products" and textiles, which fall under a separate Multifibre Agreement.

But the major threat to Gatt seems to come from developments outside the negotiations. Bilateral trade agreements between the United States and Canada, Mexico, and Israel, and the strengthening of economic links within the European Community, are seen by many Third World countries as potential threats to freer world trade. The UN report notes that there is some dispute as to whether bilateral trade agreements complement or substitute multilateral agreements under Gatt.

Another factor underwriting the UN's support for economic restructuring and freer trade is the admission of the socialist countries that their policies have failed. The report sets aside a special chapter on "Inflation, stabilisation and reform" in the socialist countries, which concludes that the inflation currently experienced there reflects economic imbalances in their economies that derive from years of resisting the use of price mechanisms. It warns, however, that moving too far and too fast could "undermine key features of stability in socialist economies".

While the UN's Economic Survey recognises the recovery made by the advanced capitalist economies in the 1980s, it indicates concern that, in their desire to hold on to what they have achieved, industrialised countries might not pull the weaker Third World economies along with them.

The desire of the industrialised countries to avert a new round of inflation edges them towards a policy of relatively slow growth, rather than the rapid growth that would raise the receipts of Third World commodity-exporting countries.

Also, declining aid donations from the United States and the reluctance of private banks to extend loans compound the flow of finance out of many debtor countries.

Based on a series of wide-ranging assumptions, the UN makes predictions for the world economy in 1990 and 1991. Among the advanced capitalist economies restrictive monetary policies are expected to slow economic development in the United States, Canada and Japan.

At the other end of the spectrum, Germany is likely to grow at an annual rate of about 4 percent over the next two years. The German economy is being stimulated by a pre-1992 (when the European single market comes into being) investment boom in Europe, as Germany is Europe's major producer of investment goods. The German boom is expected to be extended by additional demand for both consumption and investment goods from East Germany, especially after unification.

The outlook for Eastern Europe is much more gloomy, as the current recession is expected to continue for a while before a new phase of growth begins. For the Soviet Union, "averting a contraction, while at the same time coming to grips with the worst of the economic difficulties would be a good performance", says the UN report.

For Africa and Latin America, increases in financial transfers — aid, loans, and investment — are not expected to compensate for the high interest rates that deepen debt obligations, and the outlook is not bright. On the other hand, economic restructuring in several African and Latin American countries could place them on a new growth path.

In booming South and East Asia overall growth rates are expected to decline to 5,5 percent in 1990, and improve slightly in 1991, a fate that most countries elsewhere in the world would be glad to suffer.

In conclusion, the UN's Economic Survey stresses that even with restructuring in many Third World economies, real recovery and growth are unlikely unless exports are supported by stable commodity prices and unless financial transfers from the advanced countries compensate for overarching debt burdens in much of Africa and Latin America.

Netherlands visit also planned

FW, Bush to meet later this month

B|Day 7|9|90

SIMON BARBER

WASHINGTON — President F W de Klerk is scheduled to meet President George Bush at the White House on Monday, September 24, US officials said yesterday.

The meeting is expected to be announced in Pretoria and Washington today.

And SABC TV last night reported a statement from the Hague saying De Klerk would visit the Netherlands in October for about two days.

The "official working visit" to the US coincides with the annual meetings of the IMF and World Bank and will thus give De Klerk the opportunity of helping Finance Minister Barend du Plessis put his case to finance ministers and central bankers from around the world.

The confluence of events could be critical The administration is already looking at the possibility of supporting an IMF loan application by SA, while the World Bank has commissioned a detailed study of SA's development needs

In addition, the US Congress will not have adjourned for November's elections and the House and Senate leadership have indicated great interest in meeting De Klerk

Bush is said to have already developed a strong rapport with him in a series of telephone conversations and is anxious to cement the relationship in person He has publicly stated such a meeting is high on his agenda and he views likely protests by anti-apartheid activists as "wrong"

The administration believes De Klerk understands that he cannot expect to return home with any immediate rewards in terms of lifted sanctions.

Although the administration is reportedly anxious to begin easing the sanctions contained in the Comprehensive Anti-Apartheid Act — particularly those on SA agricultural products and coal — it is interpreting the law's conditions strictly.

As a result, Bush is likely to tell De Klerk that he will only ask Congress's permission to start suspending sanctions once all political prisoners have physically been released and the state of emergency is lifted in Natal

That said, De Klerk's visit will almost certainly colour the report Bush is required to submit to Congress on October 2 assessing the progress SA has made and recommending further policy steps

Meanwhile, officials have privately encouraged Du Plessis to raise the question of an IMF loan for SA with Secretary of State James Baker and Treasury Secretary Nicholas Brady

Under the so-called Gramm Amendment, the US is legally obliged to veto any IMF loan application from "a country practising apartheid" unless certain conditions are met

However, these are not the conditions contained in the CAAA. Instead, SA must prove that the loan would benefit "the majority" and encourage "labour and capital mobility" and was needed because the country was "suffering from a genuine balance of payments imbalance"

Officials said that if an application was packaged in these terms, Baker might be prepared to lobby for it both with other IMF members and in Congress

The announcement of De Klerk's visit to

☐ To Page 2

FW B|Day 7|9|90 156

☐ From Page 1

the Netherlands follows his meeting with a seven-member delegation of Dutch parliamentarians yesterday.

Before meeting the Dutch delegation De Klerk told newsmen the negotiation process between government and the ANC might be delayed because of the violence, but negotiations would take place

He said the security forces were impartial and government would like to see "Inkatha and the ANC speak to each other"

EDYTH BULBRING reports from Pretoria that Dutch delegation leader Harry Aarts said De Klerk explained openly and honestly his ideas for the future and said he was convinced there would be an end to apartheid

The Dutch also met Nelson Mandela yesterday and Sapa reports that afterwards the ANC deputy leader reiterated his condemnation of government's handling of this week's shooting in Sebokeng, where 11 people were killed in a clash with troops The SADF has set up an internal inquiry into the incident

"It's a whitewash," Mandela said "but nothing will derail the talks"

He said it had been confirmed at the meeting with the delegation that the Dutch government's strong sanctions stance towards SA had not altered

Capitalism could be IMF's Soviet prescription

B Day 6/7/90 (156)

WASHINGTON — The IMF, which has prescribed financial austerity and free-market capitalism for countries from Mexico to Mozambique, might be about to issue the same prescription to the capital of world communism

White House spokesman Marlin Fitzwater said on Tuesday that an IMF-led study of the Soviet economy would be on the agenda when US President George Bush met Soviet President Mikhail Gorbachev in Helsinki on Sunday.

Industrialised nations meeting at the economic summit in Houston during July ordered the IMF and three other international financial institutions to study the Soviet Union's needs and opportunities for Western help

"President Bush will be interested in the progress that has been made in that assessment, and in President Gorbachev's views of the reform effort," Fitzwater said.

The IMF, founded in a New Hampshire village 46 years ago to stabilise the exchange of money among nations, is co-ordinating the study. Also taking part is the Washington-based World Bank, which makes loans for projects in Third World countries; the Paris-based Organisation for Economic Co-operation and Development (OECD); and the newly formed European Bank for Reconstruction and Development (EBRD).

Controversial

IMF information office deputy chief Graham Newman said a team representing the four organisations had been in the Soviet Union conducting interviews and collecting data for the study, which was to be completed by the end of the year.

Newman said the IMF would not have a representative in Helsinki, but it "could well be" that the team would submit a memo on its progress to the president

Of the four agencies, the IMF is perhaps the most controversial, partly because of policies that its critics say have imposed stringent economic rules on developing nations to the detriment of the poor.

"The standard prescription for countries suffering from inflation to get an IMF loan is dismissal of workers from public employment, deflation of the currency and removal of subsidies on basic staples," said Council of Hemispheric Affairs president Laurence Birns. "There is no question that the group that bears the heaviest burden in these restructuring efforts are the poor and the rural middle class"

Newman conceded that "in any economy, when adjustments need to be made, there are some short-term problems". But he said the fund encouraged the countries to develop "a safety net to protect the most disadvantaged

"I suppose one has to look at the alternatives If countries don't put their economies back in order again, things are only going to go from bad to worse, and the poor are going to suffer even more."

In addition to barbs from liberals such as Birns and his group, the IMF has faced opposition from economic conservatives

Said Doug Bandow, a senior fellow at the Cato Institute: "I think the problem is that they have essentially become a dole

Protectionist

"We have seen throughout Latin America that as a practical matter countries will get money year after year, even if they don't live up to their conditions"

Newman took issue, saying "If performance criteria haven't been attained and a country wants to continue with the programme, that triggers an automatic consultation to find out what went wrong and why it went wrong" He said IMF loans had been stopped in "many, many cases"

Bandow also argued that IMF conditions encouraged countries t adopt protectionist measures whic hurt their economies, and to ra taxes rather than reduce spending curb budget deficits.

"My guess is that the study (of Soviet economy) might not be a l thing," Bandow said.

"The problem is that the policy the IMF suggests that whatever study is, the outcome isn't going t terribly helpful."

The five-month deadline for Soviet study came as a shock to s in organisations accustomed to m leisurely studies

World Bank media manager P Riddleberger said "We did a stud the Chinese economy many y ago It took several years, of cou

Hernan Puentes, a Chilean ec mist who is Riddleberger's cou part at the IMF, said "I tell you ple are scared to death of l asked to do it in five months. It' ing to mean sleepless nights for of people." — AP-DJ.

REVIEW

Political obstacles still block IMF loan to SA

8 Day 17/9/90

President F W de Klerk's visit to the US next week while the IMF is holding its annual general meeting has focused attention on SA's relationship with the fund. Business Day assistant editor KEVIN DAVIE reports from Washington.

156

SA WOULD welcome a loan facility from the IMF, and SA officials are known to have had exploratory talks with IMF officials to this end, but a complicated political path will have to be trod before this is possible

While SA is a bona fide member of the IMF, and the fund is there to supply members with loans to assist with balance of payments problems, US law forbids IMF loans to SA

The IMF does not sanction SA, but US voting rights within the fund are sufficient to ensure that no IMF loans have come to SA during the past seven years.

Two US laws apply

First the Bretton Woods Amendment Act of 1983 required that SA rid itself of "capital and labour rigidities" While SA has arguably met this requirement the second law, the Comprehensive Anti-Apartheid Act (CAAA), more recently required political reform such as the freeing of all political prisoners and the ending of the state of emergency before sanctions contained within the CAAA are lifted

These include the granting of new loans to SA. A specific clause in the CAAA forbids any American from extending a loan or voting in favour of a loan to SA

So while the original stumbling block is no longer a problem, SA monetary officials believe it is up to the politicians to ensure that SA will qualify for an IMF loan facility

"We do not talk politics to the IMF," says Reserve Bank Governor Chris Stals

It is clear that SA has a need for such a facility In spite of a balance of payments surplus which SA has now maintained for a record 22 consecutive quarters, Stals emphasises SA does have a balance of payments problem He has also indicated that an IMF facility would go some way to alleviating this problem.

In his recent Governor's address, Stals said SA had managed to achieve this surplus only through punitive control measures such as the debt standstill arrangement, the financial rand system and exchange controls

IMF money could be used to repay debt or to lower or get rid of the differential between the financial and commercial rands

But the main benefit of such a facility, besides the fact that it would improve SA's credit rating as foreign bankers would see that IMF funds would be available to alleviate temporary shortfalls, is that it would significantly improve the state of SA's reserves.

At the end of the second quarter of this year, SA's total gross foreign exchange reserves stood at about R6,4bn, or not even sufficient to cover total imports for two months

SA's quota, of which it pays 25% to the IMF with the balance on call, will rise to 1 365-million SDRs by early 1992. SDRs are special drawing rights, one SDR being worth about $1,4 Depending on their need, members can draw up to about 300% of their quota, giving SA theoretical access to a total of about $5,7bn

This additional reserve, on call at the IMF, would extend the import lifeline by many more than just two months

However, even if SA is able to convince the US that it should have access to IMF facilities, and even if the US agrees and makes the necessary legislative changes, this will not be the end of the story, because SA will still not qualify. This is because the current account of the BoP is in surplus, while the IMF's articles of association require that members may only make drawings when they face balance of payment shortfalls

SA, paradoxically, has had to maintain this surplus (to meet trade and debt commitments) because of financial isolation brought on by sanctions.

But policy changes might follow, as maintaining a surplus would no longer be that important given that SA would have access to an important source of foreign credit

LETTERS

WORLD

Few changes to policy expected at G-7 meeting

B Day 2/10/90

BONN — Finance ministers and central bankers of the G-7 industrialised nations are expected to make few, if any, changes to their five-year-old economic policy co-ordination when they meet in Washington tomorrow

Gathering against the backdrop of a recession-prone US economy, a near record low dollar, soaring oil prices, the potential for war in the Persian Gulf and the still unclear but undoubtedly high costs of German unification, the G-7 will, however, have a full agenda

The meeting is a regularly scheduled gathering at the outset of the joint annual meeting of the IMF and the World Bank

Most policy makers in the major industrial countries appear little worried about the dollar, which dropped to a record low of DM1,5385 in late August and is now trading just above that level

US Treasury under-secretary David Mulford said earlier this week the decline of the dollar against other currencies had been "orderly"

G-7 policymakers will review the impact of the crisis in the Persian Gulf on their respective economies and the world economy as a whole, but are not likely to decide on drastic policy changes

156

Focus

IMF MD Michel Camdessus said last week the oil price increase that had followed Iraq's invasion of Kuwait would cut about 0,25 of a percentage point off world economic growth now and half a point in 1991

More worrisome will be the effect of more expensive oil on world inflation levels, which will be increased 0,25 percentage points this year and 0,75 percentage points in 1991

In the IMF/World Bank meetings, which started yesterday and last for seven days, officials of IMF member countries will focus on debt and capital flow issues

French officials, in briefings ahead of the meetings, have expressed serious concern about a growing imbalance of savings and investment.

G-7 deputies were said to be worried that a lack of savings would stifle Third World investment

The French are particularly insistent that industrial countries stop draining funds from the Third World

"We are running an annual current account deficit of $60bn with the Third World That's crazy If we could eliminate it you would see interest rates come crashing down worldwide," an official said

With regard to Eastern Europe, Bulgaria and Czechoslovakia will become new IMF members, while the Soviet Union will for the first time have observer status at the annual meetings — AP-DJ.

GREAT BEAR BROODS

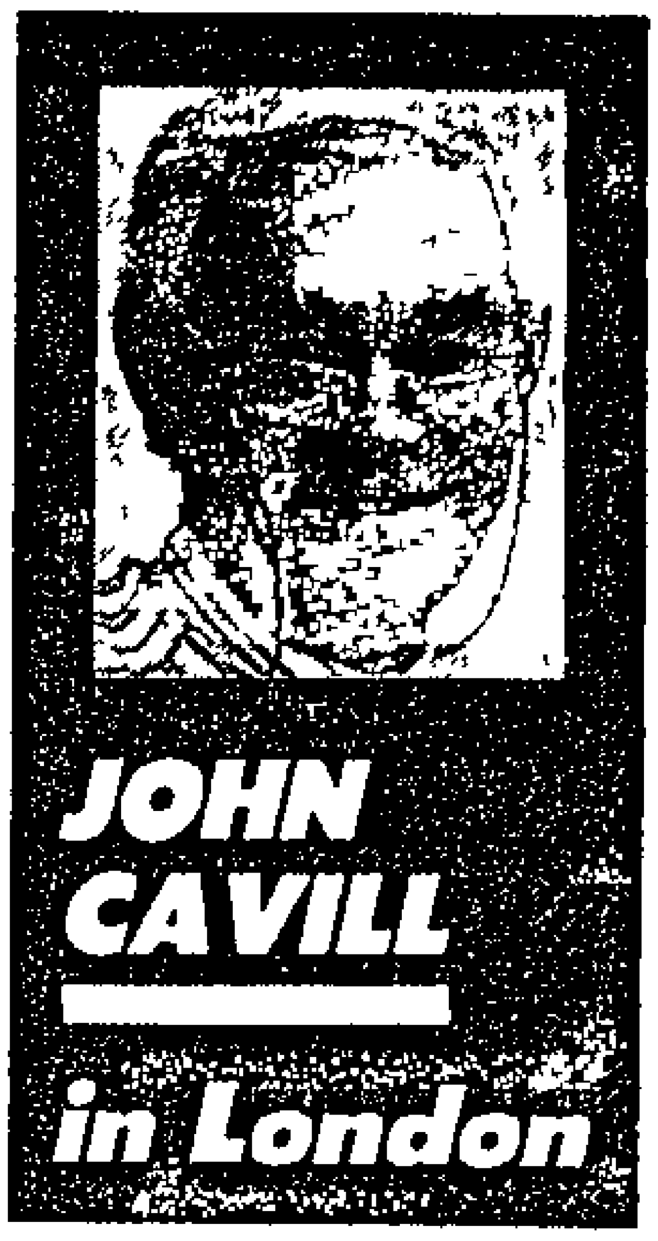
FINANCE ministers and central bankers from 151 countries gathered in Washington this weekend for the annual meetings of the International Monetary Fund and World Bank under a cloud far darker than any of them would have expected fewer than six months ago. (156)

What silver lining there is flickers uncertainly. Even that could be snuffed out by any one of 100 accidents waiting to happen in the Persian Gulf or on the Kuwaiti-Saudi Arabian border

Politically, Iraq's invasion has produced a united international response without precedent Economically, however, it has turned what was supposed to be an orderly cooling of growth to sustainable, non-inflationary levels into a potential recession S Times 23/9/90

Financial markets are running scared The Great Bear of 1990 has slashed the value of all quoted equities by 23%, headed by Japan's 39% slump. Bonds have slumped, property markets, especially in the US, Britain and Japan, are weak

Even with its prime virtue of being an asset that is nobody else's liability, gold is proving no competitor to cash in the bank, most notably yen and the European Monetary System bloc currencies, which offers high real returns In short, optimism has been routed



BUT THE IMF PUTS ON A BRAVE FACE

But is it that bad?

The IMF's World Economic Outlook, which greeted the delegates and 4 000 bankers, economists and other guests at the annual jamboree, tried to allay fears

Economic growth will suffer. Oil prices — they have doubled to $32 a barrel since May — will take their toll, nudging inflation from 4,4% to 4,8% in the major economies, keeping pressure on interest rates and curbing consumption and investment.

The IMF concludes that instead of 3%, world growth will be 2% Within that come wide variations industrialised countries will expand by 2,6% with a US crawl of 1,3% and even less in the UK, offset by Japan, Germany and the other Continental economies

European Community growth for the next five years is put at a relatively healthy 3% annually because it will benefit from investment for the no-barriers market in 1992.

WORST

Oil-importing developing economies will be clobbered by both energy costs and weakening raw-material export earnings

Worst off will be the Soviet Union and its former satellites which account for about 11% of the global economy. The pain of restructuring to a free market will cause their total gross domestic product to fall

The IMF gives no figure for the USSR, but predicts that the combined gross domestic product of Poland, Hungary, Czechoslovakia, Romania and Bulgaria plus Yugoslavia and the eastern half of reunited Germany, will shrink by nearly 6% by the end of 1991 The fast reformers, like Poland, will be hardest hit

Next year, says the IMF, there should be a recovery to total growth of 2,4% and inflation is projected to be half a point lower at 4,3%

Even so this year and next will be the worst since the last oil shock of 1979-80 although the world will not see the depth of recession which led to output falling

The fragility of these forecasts, however, is stressed by IMF economists Their forecasts are based on

- No shooting war in the Persian Gulf,
- Oil settling at $26 a barrel in the next few weeks as increased ouput from Saudi Arabia and other Opec producers reaches markets,

DANGERS

- Some semblance of normality returning to crude markets to take oil down to $21 late next year

Ernesto Hernandez-Cata, the IMF's senior economist, says "The outcome will depend on the political and military situation and we are not experts on that"

Warning against the dangers of loosening the purse strings or interfering with market forces through subsidies or price controls — they would almost certainly ensure a full-blown recession — the IMF's research director Jacob Frenkel says

"We are in a much more uncertain world .. financial markets have declined to a much larger extent than actual declines predicted in economic activity"

ALAN GREENSPAN

Alan Greenspan, chairman of the US Federal Reserve, exasperated the Joint Economic Committee of Congress this week when explaining why it would be difficult to ease monetary policy and avert recession.

PARTIES

A Democrat senator awarded Mr Greenspan the "obfuscation award of the month" for this enlightening statement

"Whether an efficacious policy response to current developments would seek higher, lower and unchanged interest rates will depend on the specifics of the situation which are shifting day by day"

Which is about all anyone can say and it does make for light heartedness at the round of cocktail parties in Washington

IMF MD Michel Camdessus

IMF chief backs stand of the Fed on interest rates

WASHINGTON — IMF MD Michel Camdessus has indicated that he understands the position of US Federal Reserve chairman Alan Greenspan that US interest rates could come down if political factions agree on a "credible" package for reducing the budget deficit

Camdessus told a Press conference last week that he had "no differences" with Greenspan's statement to Congress's joint economic committee to the effect that a good and enforceable agreement on the budget would allow long-term interest rates to move lower

"This would give monetary authorities a reason to reduce other interest rates," he said

Camdessus said he was not aware of the "precise intentions" of Japan and Germany regarding their monetary policies in the near term

Camdessus said he had heard that germany was not considering further interest rate increases, noting that long-term interest rates in Germany went up when the full effects of German unification became more clear The markets knew that with the present global shortage of savings, any rise in demand for capital increased pressure on interest rates

The IMF official observed that there was "great concern" among the governments and central banks in Europe to ensure that developments in Germany did not translate into a spiralling interest rate trend

Relief

156

Camdessus said he warmly welcomed the debt initiative unveiled last week by British Chancellor of the Exchequer John Major in Trinidad, calling for write-offs of two-thirds of government-to-government debt held by 19 of the world's poorest nations

The so-called "Trinidad terms", which will be presented to the IMF/World Bank annual meetings in Washington this week, would certainly be welcomed and should provide very sizable relief to heavily indebted countries

Camdessus said he particularly appreciated the fact that the proposal linked debt relief to compliance with IMF economic adjustment programmes

Camdessus confirmed the IMF was considering the possibility of a scheme that would allow countries benefiting from windfall gains from higher oil prices to show solidarity with other countries affected by the Gulf crisis — AP-DJ

US opens the way for IMF loans to SA

15b

KEVIN DAVIE

WASHINGTON — The US administration has opened the way for SA to apply to the IMF for loan credits.

Sources close to the IMF say SA is regarded by the fund as a member in good standing and can apply, if the country can demonstrate balance of payment needs

24/9/90

A senior official at the US State Department, briefing reporters on Friday ahead of President F W de Klerk's visit to the US, stressed the conditions of the Comprehensive Anti-Apartheid Act (CAAA), which imposed sanctions including banning loans by the US, did not apply in the IMF's case

SA has not considered applying for IMF credits during the past few years because the view in the US and SA has been that the CAAA conditions apply to IMF credits

The State Department official said a separate law, the Gramm Amendment (or Bretton Woods Amendment) applied in the case of IMF loans to SA

This amendment imposed different, "technical" criteria for US support at the IMF for loans to SA "There is no SA request to the IMF, as far as we are aware, so it is impossible to judge whether these criteria are met or not"

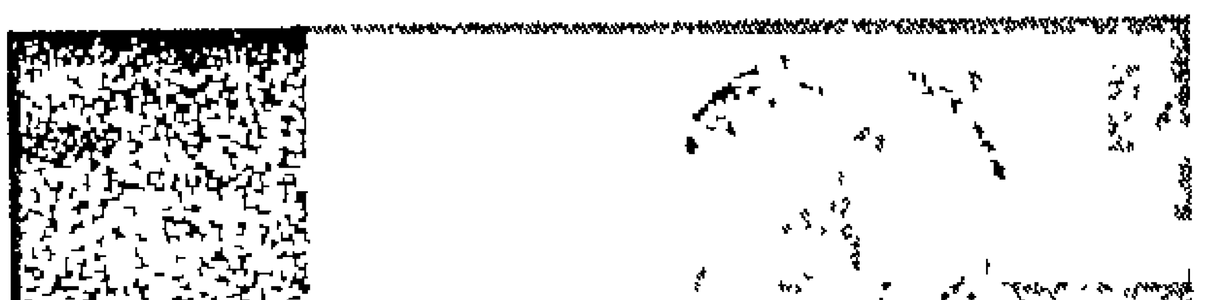
The 1983 Gramm Amendment required that certain "capital and labour rigidities are removed" before the US would support SA loan applications to the IMF

Senior SA officials who deal with the IMF believe SA has met these conditions, but have not attempted loan applications in the belief that these would be blocked by US law in terms of the CAAA

While the IMF does not sanction SA, US law prescribes how US officials within the IMF can vote on SA issues

The US administration's new approach is likely to be greeted cautiously by SA

☐ To Page 2



World Bank president Barber Conable, left, is greeted by International Monetary Fund MD Michel Camdessus at IMF headquarters in Washington at the start of a meeting of the G-24 developing nations at the weekend. The ministers agreed on a broad package of demands to help Third World countries Picture REUTER

IMF loans

BDay 24/9/90

(15b)

☐ From Page 1

While a successful application would give access to an important source of foreign credit, SA would want to be reasonably sure of success before applying

A major potential obstacle is possible opposition by the US Congress

A separate problem is the fact that SA has a surplus on its balance of payments, and the IMF in general only advances loan credits to countries which have balance of payment deficits SA argues it has a balance of payment problem because its surplus is artificially maintained through exchange controls and mechanisms

The IMF source indicated that this would not be a problem, saying the issue was "judgmental" He said SA would automatically qualify for the fund's first credit tranche, where 25% of its IMF quota may be withdrawn

SA's quota is soon to increase from 915m SDRs (special drawing rights, currently valued at about $1,40 each) to 1 365 SDRs SA could apply for further upper credit tranches of 50% to 100% of its quota, but these allocations are only made if the IMF is satisfied that policy programmes are in place to reduce balance of payment problems

September 25 1990

156 Star 25/9/90

SA officials working towards closer ties with rest of Africa

IMF and World Bank

SVEN LUNSCHE

WASHINGTON — South Africa's financial authorities at this week's International Monetary Fund/World Bank gathering are preparing the groundwork for stronger economic ties with other African countries.

They have been expressing strong support for the aspirations and development needs of sub-Saharan Africa and many behind-the-scenes meetings are dedicated to greater economic integration in Southern Africa

They have deliberately uncoupled the meetings from any request for official financial assistance from either the World Bank or the IMF.

Technical barriers

This has happened despite a statement by a US State Department official that loans by the agencies to SA are governed by regulations under the Gramm amendments and not the more stringent Comprehensive Anti-Apartheid Act

The Gramm amendments define a range of technical barriers relating to SA borrowing, including open economic opportunities for all races.

With unemployment unofficially running as high as 50 percent among blacks, SA is unlikely to precipitate any change in the US position in the short term

The US carries over 20 percent of voting rights in both the IMF and the World Bank and could easily block any decision

The meeting coincides with the visit by President FW de Klerk to the US and while officials have clearly separated the agenda of the two events, the approach is surprisingly similar.

President de Klerk has said he will not ask the US government to lift sanctions. A similar attitude is evident in SA financial circles.

The permanent representative at the IMF, Dr Frans le Roux, says the country will not approach the IMF for loans this year

Instead, Finance Minister Barend du Plessis said on his arrival in Washington over the weekend that his address to the gathering would focus on SA attempts to alleviate poverty and stress its potentially catalytic role in the regional economy of Southern Africa.

Discussion points

Efforts to reduce poverty in the developing world, in particular in sub-Saharan Africa, have been one of the major discussion points at conferences and meetings preceding the official IMF/World Bank talks.

The World Bank has commissioned and already instituted many projects and financial assistance programmes to help Third World countries cope with their problems.

The clearest evidence so far that SA is succeeding in getting greater recognition for its potential to provide support is the attention given to the role of the Development Bank of SA (DBSA).

So far, World Bank officials are taking a cautious view, emphasising it is premature to talk of programmes in SA as there has been no application for financial facilities

But the DBSA's extensive role in financing projects in countries like Lesotho, Botswana and even the Ivory Coast have not escaped the agency's attention.

The resumption of loans to SA, last granted by the World Bank in 1966, could therefore find its first expression in joint projects with the DBSA to finance development projects both inside and outside South Africa.

This has so far been prevented by SA's status as a donor nation and not a recipient of aid. But a change in status is likely in the near future

As a first step in this direction the World Bank will undertake an extensive study of the SA economy, possibly before the end of the year.

IMF Gulf decision is victory for US

B'Day 25/9/90

WASHINGTON — The International Monetary Fund gave approval yesterday to an accelerated effort to supply billions of dollars to help countries hurt by the Gulf crisis.

The approval by the IMF's policy-making interim committee represented a victory for the US government, which is counting on both the IMF and its sister lending agency, the World Bank, to help in the international effort to isolate Iraqi President Saddam Hussein.

In a final communiqué, the IMF interim committee told staff of the international lending agency to "respond on an expedited basis to present difficulties".

156

The communiqué provided no specifics on how much money would be forthcoming, but US officials have said that three countries alone — Egypt, Jordan and Turkey — would need \$13bn to \$16bn in economic assistance through to the end of next year.

Canadian Finance Minister Michael Wilson said the lack of specifics did not indicate dissension on the part of the 22 finance ministers on the interim committee, but rather a desire to leave as much flexibility as possible for the IMF to channel aid to countries.

"We recognised the urgency of the needs of the people who are affected," Wilson said. "The urgency is stated, the framework is provided and now it is up to the IMF management to respond." — Sapa-AP

Namibia banking on IMF to help it balance the budget

25/9/90 (15)

WASHINGTON — Namibia will sign the article of agreements of the International Monetary Fund and the World Bank today, becoming the 153rd member of the twin agencies

Membership will open up access to a number of facilities at the institutions, some of which are already being used.

But the country knows only too well that it is facing an extremely competitive world challenge for both public and private investment and will have to lure investors with an open and reasonable investment code.

According to IMF sources Namibia will receive an initial quota of 70 million Special Drawing Rights (SDRs), equal to about $50 million, and similar to the quota accorded to Madagascar and Mozambique In comparison South Africa's latest quota is 915,7 million SDRs, the highest of any African country

The membership of both agencies has already provided some benefits to the country

A joint IMF-United Nations Development Corporation $5 million technical assistance programme is being implemented and further economic training programmes in the country are on the cards.

Namibia will undoubtedly make use of some of the other IMF programmes aimed at overcoming structural balance of payments problems, as the withdrawal of SA subsidies has left a huge gap in its coffers

South Africa's contribution to Namibia's budget peaked at R470 million in 1987, but dropped to R80 million in its last official subsidy for the 1989-90 budget

The country's relatively high per capita income will initially work against substantial aid from the World Bank, but most economists are optimistic that multilateral and bilateral aid donors will serve most of the country's short term development needs.

Attracting longer term, private, investment will be more difficult, however, but could be facilitated by an open and reasonable investment code.

So far progress has been good and Namibia has been praised for the content of its new constitution, which embraces a commitment to market-based enterprises.

The government will host a conference in Windhoek in November to attract potential investors, by which time the country should have formulated its economic development goals and an investment code.

Backlog fund could be key to IMF loan

156

B Day 26/9/90

Reports by
KEVIN DAVIE

WASHINGTON — The establishment of the R2bn special backlog fund in this year's Budget could be the key factor in enabling SA to motivate for a successful loan application to the IMF, a US administration official has indicated.

Other reforms which SA had put in place included the abolition of the pass laws and granting trade union rights for black workers, the official said

In recent years, SA has faced two hurdles in getting IMF credits.

New context

First, the Comprehensive Anti-Apartheid Act (CAAA) coloured the political environment by limiting all new loans to SA by the US as well as imposing a range of other sanctions.

"It was not legally true (that the CAAA limited loans by the IMF to SA)," the official said, "but there was a political understanding that you could not do the one without the other"

He said US President George Bush's statement on Monday that change in SA was "irreversible" had created a new political context

The hurdle SA now faces in getting credit facilities at the IMF is that the Gramm Amendment of 1983 requires the US representative at the IMF to block these loans unless certain conditions are met

The administration official, who stressed that "we are only one voting member", said it was up to SA to decide whether the conditions of the Gramm Amendment had been met.

These required SA to abolish "capital and labour rigidities" before the US would support loan applications by SA to the IMF.

"If SA felt it had a specific proposal that met the conditions of the law, we would look at it," the official said

He said there had been no discussions so far with the IMF.

The SA delegation has declined to comment

Finance Minister Barend du Plessis makes his keynote address today and is expected to speak about poverty and the role SA can play in economic development in southern Africa

SA has a clean slate at the IMF with a special drawing right (SDR) of 915-million (about $1,28bn). An SDR is the IMF's currency, which is made up of a basket of currencies Its value is about $1,40 to one SDR.

Members can automatically withdraw 25% of this quota Repurchases are made within three to five years

Further withdrawals against quota can also be made, but here withdrawals are conditional — substantial and feasible programmes have to be introduced to overcome balance of payment problems.

East is opening up for SA — Lombard

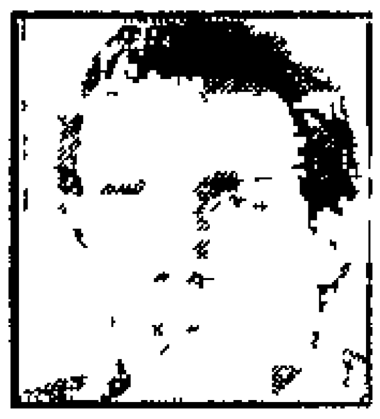
(173) (280) (60)

Star 26/9/90 (156)

The Star
Finance

DBSA will be first in line for foreign loans

IMF and World Bank



SVEN LUNSCHE

WASHINGTON — When the time is right politically, the Development Bank of Southern Africa (DBSA) will become the first South African institution to tap international capital markets, says chief executive Dr Simon Brand

He said at the IMF/World Bank meeting in Washington that foreign banks were taking an increasingly optimistic view on future lending to the DBSA

"Our wide spread of lending to development projects in Southern Africa presents a good portfolio to expand our activites and this has been appreciated by overseas institutions," he said.

Improved perceptions of the DBSA internationally had gone hand in hand with renewed interest by the bilateral aid agencies of many Western countries

"When the time is right these agencies have indicated they will link up with us in jointly financing development projects in the whole of Southern Africa," he said

The link with international capital markets would be essential if the DBSA was to expand its activites in the region

So far, the only source of funding had been SA government grants and the SA capital market, which limited the application of projects mainly to South Africa

Only recently had the DBSA expanded its activities to other Southern African countries — Mozambique, Swaziland and Namibia — but these had been limited to technical assistance programmes.

The exception was the Lesotho Highlands water project, where the bank was financing infrastructural developments to the tune of R600 million

The project had proved a milestone for the DBSA in a different way For the first time it had cooperated with the World Bank at an operational level in preparations for the main dam projects

The World Bank had financed some of the provisional infrastructural projects and would decide in November whether to go ahead with funding major construction of the dam

"This will further improve our relations with the World Bank and, while no joint financing efforts are imminent, this could become a real issue in the future as the World Bank steps up its projects in Southern Africa," Dr Brand said

He said the World Bank was preparing to increase its involvement in South Africa itself, in anticipation of political changes, and was gathering economic data on the country.

"There is a wealth of technical expertise at both the World Bank and the IMF,"

(156) Star 27/9/90

The Star
Finance

World Bank sees Africa sinking ever deeper into poverty

IMF and World Bank

SVEN LUNSCHE

WASHINGTON — Appropriate economic policies could reduce the number of poor people by 300 million people from its present level of 1,1 billion, the World Bank says.

This is the key finding of a report by the bank on poverty as well as the focus of the address by the bank's president, Barber Conable, to its board of governors here.

In its report the bank paints a bleak picture for Africa, where the number of poor is set to increase, even if economic growth improves

The poverty level is set at income not exceeding $370 a year and according to the bank, one-third of the population in the developed world, could be defined as poor

Africa is the region most afflicted by increased poverty and the bank estimates that high population growth rates could see the number of poor rise from 180 million in 1985 to 230 million by the year 2000.

Of the 180 million, two-thirds are classified as extremely poor — $275 per capita a year.

This runs against the broad trend seen in most other poor regions of the developing world, namely Asia and Latin America.

"Economic growth per capita in South East Asia, for example, is forecast to rise by five percent a year over the 15 year period, whereas Africa's comparative growth rate is estimated at a mere 0,5 percent," the report says

"Just to keep the number of poor consistent in Africa would require per capita growth of 2,5 percent a year, way above our predictions."

The difference, according to Mr Conable, is the implementation of poverty reduction strategies, which has received more backing in Asia and Latin America than in Africa

"The World Bank is determined to press Africa's recovery but governments must be committed to poverty reduction and scarce financial, natural and human resources must be used more effectively," Mr Conable said.

"People are seeking better choices and more control over their individual destinies and development is only likely to succeed where government is responsive and just."

The cornerstone of debt reduction strategies were policies which promoted economic growth and provisions for basic social sevices.

Economic growth could be achieved only by the entrepreneurial spirit of individuals, but the state needed to address major economic imbalances, such as high inflation, from which the poor suffered most

The World Bank continued to propagate external assistance to help the poor nations in their fight against poverty but these programmes should be designed to "support the recipient country's own efforts"

"Aid cannot be expected to have much impact if there is a waste of resources and should therefore be targeted directly at the very poor," Mr Conable said

In its final analysis the bank stresses that the ultimate outcome of poverty reduction will depend to a large extent on world economic growth

"Our projections of world economic growth for the 1990s will have to be lowered if the Gulf crisis worsens"

Just a half a percentage point drop in annual world growth to 2,5 percent from its forecast of three percent, would leave the number of poor at 1,1 billion in 2000, instead of the expected 300 million fewer

Barend paves the way for future IMF loans

Star 27/9/90 (156)

By Sven Lunsche

WASHINGTON - Finance Minister Barend du Plessis yesterday paved the way for the eventual resumption of loan facilities at the IMF and the World Bank.

Ahead of his meeting with IMF managing director Michel Camdessus today, Mr du Plessis, in his address to the IMF/World Bank meeting, committed his government to a wide ranging policy of regional economic co-operation and poverty reduction

"The rapidly changing internal political situation and the general acceptance of the irreversibility of the process of change, should greatly facilitate closer co-operation with the countries in the region," Mr du Plessis said "South Africa is prepared to play a meaningful role in addressing the pressing problems of our region"

His speech is seen as a clear indication that South Africa is planning its return to full acceptance at the IMF and the World Bank through a commitment to programmes that enjoy the full support of the twin agencies.

Social programmes

South African delegates here have indicated that the IMF could be approached over the next few years for assistance in financing the massive social programmes required to upgrade the living standards of the black community

Reserve Bank senior deputy governor Professor Jan Lombard said yesterday South Africa "cannot continue exporting its savings" and should rather use them to finance domestic expansion and growth

"As we proceed into the Nineties the economy will need some capital from abroad, which will create a natural deficit on the current account of the balance of payments and makes us technically elegible for IMF funds," Professor Lombard said

A normalisation of South Africa's access to IMF facilities will also assist in making a return of private investors possible, he added

Mr du Plessis told a relatively well attended meeting that the momentous political changes over the past 12 months "are clearly more conducive to supporting productive economic activities".

Mr du Plessis referred frequently to World Bank studies on poverty reduction "Hopefully many developing nations no longer need to devote substantial portions of their budgets to maintaining large security establishments, which is certainly happening in SA

"As the peace dividend increases so South Africa and other countries in our region will be able to spend progressively more on the alleviation of poverty by providing shelter, basic health services and appropriate education," the Minister said

He blamed much of the current state of economic-depression in the region to large scale capital outflows "Disinvestment in whatever form affects the poor firstly and overwhelmingly.

Capital outflows

"The large capital outflows led to the destruction of many potential and actual job opportunities and an inability to generate sufficient revenue for essential social expenditures"

Mr du Plessis nevertheless reaffirmed his commitment to another cornerstone of IMF policy, namely a socially responsible, market orientated system.

"Despite the growing socio-economic demands we also had to apply strict monetary policy in order to create and maintain a stable financial environment conducive to long-term growth and development.

"This clearly is the only sound manner in which to meet these legitimate demands in the long-term," Mr du Plessis said

Switch in financial community's view of SA almost complete

B Day 28/9/90

156

KEVIN DAVIE in Washington

PRESIDENT F W de Klerk's visit to Washington this week helped confirm the switch in the financial community's attitudes to SA which Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals have experienced at the IMF and the World Bank.

Pressure to repay debt has eased, SA may consider applying for an IMF loan when the next economic upswing affects the balance of payments, and bankers are starting to think about putting new money into the country

Stals says that investment and banking attitudes towards SA have changed drastically in the past year

"Bankers say they are positioning themselves for the future, upgrading files and looking at who potential borrowers might be

"It's more than just wait and see The attitude now is more positive in the sense that more banks and investors are prepared to retain existing exposures"

The next phase, which we've not reached yet, says Stals, is for banks to increase their exposures

He says this is in sharp contrast to just a year ago when investors were still trying to get their money out of SA.

"That has changed Most foreign investors in SA are happy to retain the status quo

"There's not as much pressure on us to repay the loans. That's why we find it possible to roll over some of the loans"

Stals says De Klerk's visit to the US was very favourable

"This is a process of improving the image of SA, of increasing our creditworthiness and our credibility I think there is a better understanding as far as the banking community and the world is concerned It is important that they see that the president is accepted in the US.

"This is confirming again that we are in an irreversible process of political reform This is also the minimum the financial community of the world is looking for

"The State President made it clear he was not coming here to try to get sanctions lifted, but it will make a very important contribution to the process of improving the image of SA in the financial markets"

Stals believes it was a coincidence that De Klerk's visit was timed to fall within the week of the IMF meeting, but says it ensured the maximum advantage as the international financial community was gathered in Washington.

The Governor says at this stage SA's prospects of borrowing from the IMF and World Bank are restricted by US legislation.

☐ STALS

"Before we have a change to that legislation it will be extremely difficult for us to borrow because the Americans hold 20% of the voting rights within the IMF, which gives them a veto"

If there was an easing of the American attitude, then the issue would become a normal matter based on IMF requirements

"This will require difficult negotiations between us and the IMF as it is not straightforward that we will qualify"

"Our balance of payments is in surplus, and our foreign reserves have been increasing recently

"But we can obviously negotiate with the IMF and say we can develop a balance of payments need alost overnight as the only reason we have a balance of payments surplus is that we apply all kinds of restrictions"

These included restricting domestic demand, the financial rand system and the debt scheduling arrangement.

"We want to get rid of all these restrictions"

Stals says SA has not qualified for loans from the World Bank since 1966 because the country's per capita income has been too high

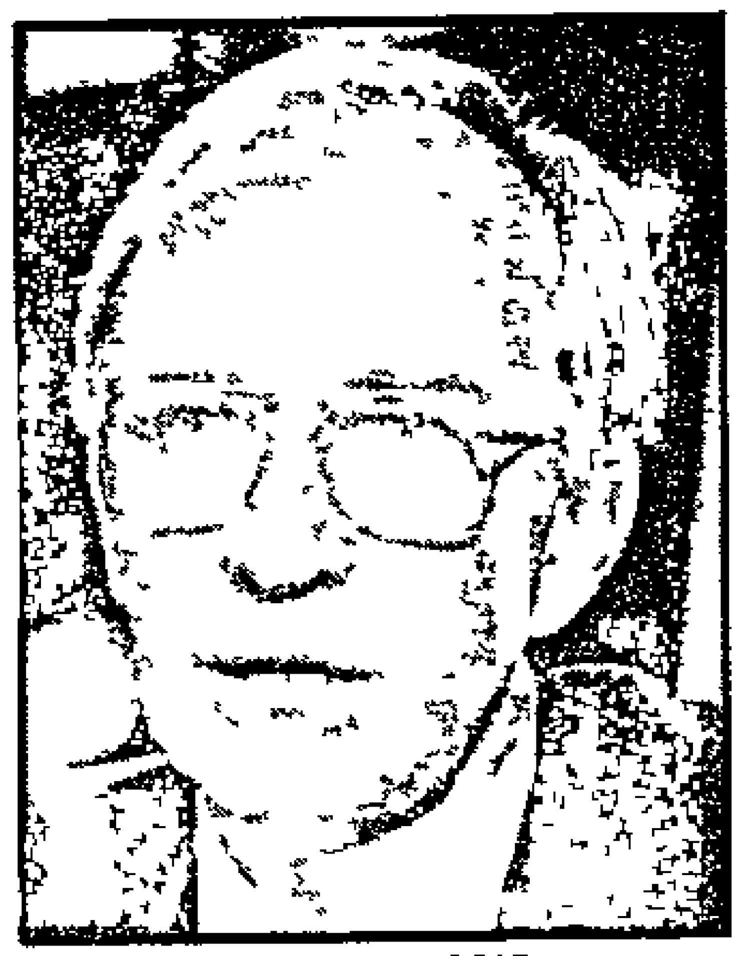
"If we should start talking to the World Bank there will be quite difficult negotiations to convince them that SA should qualify"

Stals says it will make no sense to approach either of the two institutions as long as the restrictions remain in the American legislation

Du Plessis, SA's governor at the IMF, says from SA's point of view "we have long since complied with the Gramm Amendment (a law which requires the US to vote against IMF loans to the SA)

He says it is significant that the US administration is separating the Gramm Amendment from the Comprehensive Anti-Apartheid Act, the US umbrella sanctions law

"This works to our advantage", he says



☐ DU PLESSIS

Du Plessis says SA is not considering applying for an IMF facility at the moment. He says political and technical considerations will have to be kept in mind

"After having had the (political) path cleared, and nobody can say when that will happen, we have not yet accumulated sufficient reserves, the parameters are not yet in place to start the growth phase.

"In other words there will have to be certain fundamental needs from our side before we apply The most opportune time will have to be identified"

The Finance Minister says SA may see a resumption of the economic upswing by the end of next year, although the Gulf crisis may delay this

Asked when SA might make an application, Du Plessis says. "It's only under normal conditions that we will begin the next upswing at the end of next year, and only when we've gone into that will we begin to experience balance of payments problems."

The IMF was quite happy about SA's economic programmes and policies but realised that SA had to manufacture a surplus on the current account.

"The price we pay for that is slower economic growth. Half of our savings have been required to service the outflow of capital from SA, at least halving our economic growth rate"

Du Plessis says he met World Bank president Barber Conable, and spoke about SA's involvement in cross-border projects in southern Africa and the role SA and the Development Bank was willing to play

The fact that the World Bank was involved in the Lesotho scheme created common ground

"They have been quite open about the importance of the role SA can play in the region If and when we restore normal participation, then we should explore World Bank help in restructuring the economy of SA," Du Plessis said

WAITING FOR SADDAM

WESTERN SUCCESS IS BEING TROUBLED BY UNCERTAINTY OVER THE GULF

Those who determine economic policy in the major industrial nations are facing a tough choice They must decide whether the Gulf crisis is going to be short-lived or become a more permanent constraint on growth.

They are coming under increased pressure from some politicians and businessmen — who have made the wrong choices — to reduce interest rates and ease credit to counter a period of reducing growth after eight consecutive years of rising prosperity

If they do so in the belief that Iraqi President Saddam Hussein is capable of forcing a substantial increase in oil prices over the next year, they could, if they're wrong, induce strong inflationary pressures that will take time to contain and do great harm while that is happening.

Fresh in their minds, of course, is the October 1987 equity Crash, which was accommodated in haste by the creation of too much liquidity and led in part to inflationary pressures in some leading economies now.

Nor have policymakers forgotten the foolish measures taken after the oil shocks of the Seventies to isolate domestic economies These created inflationary pressures that took a decade to contain.

If, on the other hand, policymakers impose greater monetary and fiscal discipline, and Hussein proves a short-lived threat, they will impose immediate social hardships on many people which, in turn, could have unpleasant political consequences

Indeed, they could jeopardise initiatives in eastern Europe, the Soviet Union and some Third-World countries to substitute free-enterprise economies for unproductive command ones, and, in consequence, introduce deeper and more dangerous political uncertainties

This dilemma is why Federal Reserve chairman Alan Greenspan had an argument when testifying before Congress last week over the definition of a recession He argued that lower interest rates in the US would be inappropriate now because a recession was not necessarily signalled by two successive quarters of falling output Instead, he defined a recession as a cumulative process of deterioration into economic decline

In fact, Greenspan, faced with rowdy political demands for accommodation in an economy that's cooling anyway, was more likely seeking a way to do nothing rather than indulging in serious economic dispute. It was clearly a time for central bankers to reflect and worry rather than react in the market

That is more or less what bankers, economists and treasury officials were doing at this week's annual meetings in Washington of the IMF and World Bank They are waiting to see how Hussein jumps.

It is common cause that after eight consecutive years of growth — a rare peacetime phenomenon — the large Western industrial economies need to pause for breath

They are all running short on capacity, so continued growth in demand will increasingly be inadequately met, resulting in inflationary pressures Lack of savings and capital formation was bound at some stage to bring about a capacity constraint

A reduction in real interest rates now is unlikely to generate the savings needed to enable the industrial economies to begin another growth cycle in a year or two's time

The IMF forecasts that growth in the world economy will slow to about 2% this year from 3% last But next year output is expected to begin picking up, at 2,5%

In the industrial countries real GNP is expected to rise by 2,5% for this and next year, down from an average 4% in 1988-1989 Inflation is likely to increase to 4,75% but decline modestly next year

The catch, of course, is that none of these forecasts takes into account adverse consequences from the Gulf crisis The IMF based its forecast on an oil price of US$26 a barrel this year, reducing to $21 next year If this trend is reversed, and oil rises to $30 for the year, the expected growth will most likely not be there If prices level at $60 — which is one gloomy forecast — then the industrial economies will be faced with major adjustments and inevitably greater austerity

One encouraging fact is that the Group of Seven — the US, Japan, Germany, France, Britain, Italy and Canada — was remarkably sanguine after its meeting in Washington It still forecasts continued growth in these economies, though at a lower rate

Significantly, they have agreed not to try to cushion any Gulf oil shock The correct response to higher oil prices, they say, should be a monetary policy aimed at stable domestic prices and fiscal policies and practices that reflect a tighter monetary stance

Policies aimed at greater price stability, as much in the financial markets and foreign exchanges as anywhere, remain a priority among these large national economies

After last year's euphoria over the emergent economies of eastern Europe, there has been a more sober assessment of their prospects Structural, supply and ownership problems have dampened the enthusiasm of the G7 innovators and, no doubt, their own first downturn in eight years has concentrated their minds on domestic matters

Pervasive pessimism at this year's IMF meeting has more to do with uncertainty over the Gulf than serious underlying economic problems Eight years of running growth had at some stage to be temporarily interrupted as capacity restraints emerged

That is happening but by no means calls into question the fiscal and monetary policies applied — enhanced by lower taxes and deregulation — over the past 10 years

Indeed, current temporary difficulties (excluding whatever the Gulf may bring) are part of the normal business cycle which, if adequate adjustment is allowed, will lead of its own volition to renewed growth

If anything, it is inadequate application of policies (as with the US federal deficit) that has precipitated the current hiccup Nor does the cyclical decline open to question the efficacy of free enterprise or suggest that collectivism has more to offer.

The greater the element of collectivism in a mixed economy, the more severe the cyclical growth interruption is likely to have been — unless there is an independent-minded central bank to take up the monetary slack.

There is much, too, that the free economies of the West can expect to enhance their economic prospects These include the extent to which economies have been deregulated; the scope for tax reform to encourage economic endeavour, and, of course, the enormously rapid advances being made in advanced technologies, especially information ones The impact of these phenomena has yet to be significantly felt on growth rates

Attempts to liberalise trade and enhance competition are important structural reforms that will in due course add significantly to potential Western economic growth

In SA the need to adjust with great austerity to the capital shock of the mid-Eighties has put the economy in a favourable position to weather the sort of squall Hussein can raise Of course, SA will have to maintain substantially positive interest rates commensurate with those in the economies of our leading trading partners.

Point is, the economic revolution led by Ronald Reagan and Margaret Thatcher is an unprecedented success Its attempted emulation by eastern Europe is testimony to its durability and ability to produce It could assist their transition to democracy

Free enterprise based on fiscal and monetary conservatism has become acknowledged even by Third-World indigents at the IMF as the only game in town Its efficacy is questioned only by the ignorant or recalcitrant.

The current policy hiatus is temporary Hussein is not capable of introducing sufficient discontinuity into Western economics seriously to threaten their ability to adjust to unexpected price shocks. The enhanced resilience that freer trade and structural reforms are giving the marketplace will see to that ■

SA AT THE IMF (156)

FLYING THE FLAG

FM 28/9/90

This week, for the first time in the memory of most people in Washington, the SA flag bedecked the White House — the traditional courtesy shown to a visiting head of state.

Of course, the adjacent Lafayette Square is no stranger to our national emblem. It has been doused in petrol there often enough prior to symbolic burning by those opposed to apartheid. But despite the presence of State President F W de Klerk in the guest house for official dignitaries, protest against his visit has been muted.

For the most part, Washington and the delegates to the International Monetary Fund and World Bank annual meetings gave De Klerk a warm, indeed encouraging, welcome

De Klerk addressed a dinner for businessmen at which the demand for seats was substantial. At lunch he addressed the Washington Press Club after meetings with President George Bush and later, together with Finance Minister Barend du Plessis, with Treasury Secretary Nicholas Brady.

While accorded all the dignities of an official visit, there has not been a hint of the extravagant media triumph which surrounded the ANC's Nelson Mandela a few months ago. Chances are, however, that De Klerk and Du Plessis could eventually reap more tangible benefit from their visit than the ANC gained from Mandela's

The ANC raised only a fraction of the funds it had hoped to garner from rich Americans Maybe that was because of the R25 000 some say they were asked to pay to hear Mandela speak after he'd alienated many in the Jewish and Cuban communities by his open support for infamous leaders Some Americans hasten to point out that now Mandela has his freedom, the world's longest-serving political prisoner is in a Cuban jail

Ostensibly, De Klerk hasn't come to ask for anything. He was invited by Bush some time ago, but summoned at short notice by Bush himself — and the visit is very much at the US presidential pleasure

Nor has De Klerk been involved directly in any of the IMF and World Bank meetings. However, some US bankers believe Bush was not without guile in timing De Klerk's visit to coincide with the presence in Washington of many delegates from the indigent and politically repressive black African states.

The message they say he wants to get across in a forceful manner is that while the West will certainly respond positively to poor countries that implement sensible economic reforms, he also wants better government — respect for human rights, the rule of law and greater integrity.

That is precisely what World Bank president Barber Conable has been telling the African caucus — very bluntly.

It has been suggested, too, that Bush is anxious to talk to De Klerk on Middle East strategic matters now that his soldiers could soon be facing hi-tech Armscor missile weaponry in Iraq's hands.

While De Klerk said he would not himself raise the question of continuing US trade sanctions, it was certainly discussed

Our guess is that he put forward the argument used by Du Plessis against their prolongation· that the moral case for sanctions reduces as apartheid itself is rolled back and that this should be recognised If it isn't and removal has to await a new constitution, there is an unnecessary constraint on economic growth

This, in turn, will hamper the ability of government to address welfare, educational and housing shortfalls For increased spending must be financed from growth and not higher taxes or additional borrowings.

As could be expected, Bush was sympathetic and offered help to bring about democracy in SA, but, on sanctions, he refused to move the goalposts.

De Klerk's more telling requirement is for SA to regain access to IMF support facilities — effectively blocked by the US — so that it can repay all its foreign debt and regain access to world capital markets.

This debilitating deprivation is made more urgent by SA having by force of circumstances become a good credit risk, yet still subject to a debt rescheduling arrangement Because of this, some banks, notably the British, will soon be required by their authorities to carry an increased capital reserve against SA loans in the net, despite SA foreign debt being less than 80% of one year's export earnings

Progressive access to greater bank financing, as bankers' attitudes towards SA soften, will not achieve the dash for freedom and support for the next economic upturn that Du Plessis wants The situation, however, is not desperate. There is no pressure now on SA to repay debts ahead of the current schedule, which ends in December 1993.

The most difficult time for the capital account was the first six months of this year, when payments under the schedule were heavy. The current account surplus at present exceeds the capital outflow, the reserves rose by R500m in the first half of the year and by R2bn in July-August.

But renewed access to IMF facilities would certainly help the economy adjust to the prospect of slower world growth and possible higher oil prices.

It would also enable an eventual switch in policy towards greater economic growth while avoiding some of the more harsh risks that current constraints on the trade balance make inevitable

Simply put, De Klerk's and Du Plessis' efforts at financial diplomacy aim at a more rapid transition away from apartheid to a free-enterprise economy with as few constraints on growth as possible. If they are successful, they are more likely to help the poor faster than either the continued denial of capital resources for some unspecified gain in political reform, or a contribution to the ANC ■

World Bank president Barber Conable delivered a speech at the IMF annual meeting in Washington this week
Picture, AFP

Du Plessis lashes out at sanctions in IMF speech

W/Mail 28/9 - 4/10/90

WASHINGTON All countries in the southern African region, including South Africa, still fell far short of fulfilling the basic needs and the aspirations of their people, said Finance Minister Barend du Plessis in a strong anti-sanctions speech before the annual general meeting of the International Monetary Fund (IMF) in Washington this week

The meeting was also attended by representatives from Namibia, Bulgaria, and Czechoslovakia

Du Plessis said dealing with the problems of the developing world was a daunting task — which called for inspired leadership, original thinking and the co-operation and support of the world community.

(156)

"Disinvestment in whatever form or for whatever reasons affects the poor firstly and overwhelmingly.

"South Africa, and consequently to a marked extent our whole region, knows at first hand the severe penalties this process incurs — this despite our country's good record and its low debt ratios

"The plight of the African continent and the need for concerted action have been highlighted by the 1990 World Development Report which singles out sub-Saharan Africa as the one region that has not shared in economic progress and the reduction of poverty

"Poverty, rather like trade, knows no boundaries — especially in the regional context, and very much so in Africa"

Painting a cheerful picture of the latest political developments in the southern African region, Du Plessis said "Countries and regions are now moving away from strife and armed conflict towards more representative political systems and constitutional structures"

"Hopefully, many other developing countries will now also no longer need to devote substantial portions of their national budgets to maintaining large security establishments This is certainly happening in South Africa."

He said as the "peace dividend" increased and as prudent economic policies took effect, South Africa and other countries in the region will be able to spend progressively more on the alleviation of poverty.

He said such advantages would only be attainable through the consistent application of sound fiscal and monetary policies, involving a "fundamental economic restructuring" — Sapa

SA regaining international favour

Star 17/10/90 (156)

WASHINGTON — International banks are preparing to re-establish normal business links with South Africa in the wake of improved political sentiments

IMF and World Bank

SVEN LUNSCHE

Reflecting on their discussions with international financiers at the IMF/World Bank gathering, Finance Minister Barend du Plessis and Reserve Bank Governor Dr Chris Stals say the attitude towards South Africa is more open than it has been for some time.

"Particularly among African countries there is a greater degree of stability in their approach to us and contacts are more visible," says Mr du Plessis

However, Dr Stals says the time has not yet arrived to apply for new loans from the two agencies

"The restrictions placed on loans by the US Bretton Woods Amendment would force the US delegation to refer South African requests to the US Treasury Secretary

"This will undoubtedly lead to discussions in the US Congress which could embarrass us and the IMF, a situation we will avoid until the political climate is right," says Dr Stals

However, South Africa certainly has paved the way for future loans by repeatedly emphasising its commitment to regional economic co-orperation and development

It was the central theme in Mr du Plessis' recent address to the gathering and elicited a favourable response, particularly from African countries, he says.

Both officials had extensive behind-the-scenes discussions with African representatives, focusing largely on initial steps for closer economic co-operation

Dr Stals says the difference in attitudes is most marked among Western commercial bankers, who are now updating their South African files

"One prominent European bank even inquired about the possibility or establishing a representative office in South Africa, which is a pleasant change from previous years, when we were informed about the closures of these offices," says Dr Stals.

Dr Stals is travelling to New York this week to meet prominent US bankers and expects a similar business-oriented approach from them

Mr du Plessis says the visit to the US by President FW de Klerk and the positive response of President George Bush to recent reform measures have contributed to the new openness towards South Africa.

Both Mr du Plessis and Dr Stals say, however, that the outflow of capital and the lack of access to international loan facilities had severely restricted economic growth

"The need to generate a substantial surplus on the current account of the balance of payments forces us every single time to put a lid on economic growth when it reaches a certain level," says Mr du Plessis.

"The restoration of our full growth potential is a top priority and we could certainly accelerate the start of the economic restructuring through access to IMF facilities"

Mr du Plessis says that the discussion and tone of this year's IMF/World Bank meeting left little doubt that socialism had no future.

"Centrally managed economies have proved incapable of producing a good standard of living," he says

WORLD BANK-IMF

FM 5/10/90

156

A RELUCTANCE TO RELEASE

THE INSTITUTIONS ARE UNEASY HEIRS TO CONFUSED ECONOMIC POLICIES

At almost any international banking or economics forum nowadays, there is a plaintive cry that volatile exchange rates are inhibiting the expansion of trade and thus economic growth After the eight years of continuous economic growth that the Western industrial nations have experienced, it is a cry that should fall on sceptical ears But it doesn't

There are many reasons for the volatility, not least of which is the reluctance of some of the weaker currency countries to make the domestic economic adjustments necessary to provide underlying stability to their own currencies Invariably, the discomfort of putting to rights past mistakes is held out as the political reason for this reluctance

But market intervention has also gained more respectability than it deserves, largely as a result of the efforts of the Group of Seven (G7), ostensibly to iron out short-term market fluctuations, and the longer-term relationships inherent in the more mechanical European Monetary System (EMS)

There are bankers and economists who, while still professing a belief in market forces, will nevertheless find justification in these more rigid and mechanical exchange rate relationships and claim that they have imparted useful stability

The truth is that they achieve very little and tend to blind the participants to economic realities Lord Keynes was not the only economist who persuaded himself that he could outwit the market with arrogant regularity Former British Chancellor Nigel Lawson was clearly beguiled by the seeming importance of his G7 position into taking the wrong policy measures and once again allowing inflation to gain a strong foothold

The reluctance of Britain's Conservative Party to enter the EMS on anything but its own terms is another indication that these mini-Bretton Woods arrangements are not without their difficulties They involve the loss of sovereignty and tend to encourage an arrogance among some participants that delays the application of more sensible underlying economic policies, like fiscal and monetary restraint or trade liberalisation

But the interesting thing is that these market manipulative mechanisms have grown up outside the traditional structure set up primarily for that purpose — the International Monetary Fund (IMF) The reduction of market fluctuations and the administration of a fixed exchange rate mechanism was its *raison d'etre* But it failed ultimately because it threatened to breach national sovereignty too often

In the heyday of the IMF, participants would not make what adjustments the fund might think necessary if they judged the economic or political costs at home to be too high Nor have eight years of prosperity meant there has been much call on the IMF's other traditional facility — the provision of temporary balance of payments support for the leading Western nations

Instead, the function of the IMF has been edged towards the provision also of developmental finance for the purpose of restructuring those economies suffering from too much collectivism and inflation The danger is not so much that this has occurred, but that it could become cumulative

The World Bank, for its part, is still in this business (as are some more basic financing agencies for the very poor), but at this year's annual meetings of the fund and bank it took a much tougher line on more equitable government structures and on the integrity of government itself

This, in turn, has created another dilemma Quite apart from the traditional differences in the funding they provide, the IMF and World Bank are both facing a crisis of privatisation For their facilities are made available in most circumstances directly to governments, some of whom are busy trying desperately to sell off their trading and service undertakings into private ownership And more often than not it is the newly privatised undertaking that needs the money, not the government that has sold it off.

Besides, Lord Bauer's belief that it was foreign aid to the Third World (which has certainly had an abundance of capital in that form) that was the chief instrument of its economic deterioration, is now a view widely held within the aid agencies themselves When governments have the luxury of relying on foreign gifts to finance their excesses and do not have to convince taxpayers of their interest, good governing tends quickly to fall into abeyance

The IMF has been assailed on both sides by the G7 politicians who have hijacked its former role of exchange rate supervision and by the traditional aid agencies like the World Bank and its affiliates who resent encroachment into their developmental fields, especially since they, too, have become advocates of market economics

The situation might show some indication of being resolved if men of stronger character and greater vision were at the head of the IMF and World Bank These are positions that require men of exceptional foresight and managerial ability, not least because they are astride an international bureaucracy of clever and determined public servants

The top IMF job is one for which there tends to be an assumption among those nations that count that it will go to a non-English European So it tends towards central banking diplomats such as the present incumbent, Michel Camdessus, foremost among whose manifest abilities in his own field are not special foresight or charismatic leadership A good test of a man is his use of language Camdessus's is elegant but obscure He favours words such as "modalities" which are way beyond the reach of most bankers, but have become a standard feature of interim commitee statements

At the head of the World Bank is the affable Barber Conable Like Camdessus, he expresses laudable sentiments and has put more zip into the bank's flabby bureaucracy

SACOB HEAD FOR *FM* CONFERENCE

Planning a course through SA's fast-changing political landscape has become one of business's major concerns. The questions seem endless and answers will be addressed by Raymond Parsons, director-general of the SA Chamber of Business (Sacob), at the *FM*'s Investment Conference next month

The title of his address is: "Business and a new political dispensation in SA "

Parsons has been one of organised business's leading and most visible spokesmen for several years in proactive as well as reactive roles

Apart from his Sacob executive responsibilities, he has been a member of the State President's Economic Advisory Council and serves on numerous other advisory and developmental bodies His conference address will deal primarily with business's proactive options

☐ The annual conference will be held — as in previous years — at the Carlton Hotel, Johannesburg, on November 1-2 The fee is R1 100 per delegate, reducing to R980 for each additional delegate from the same company

Bookings should be made through conference manager Brigitte Petty on (011) 497-2135

FIM 5/10/90 (156)

But he is an old politician being rewarded by the American presidency, to which he has at best limited access and from which he gets limited support While he has steered the bank away from its past sentimental economics — no mean undertaking — he is not going to add much innovation to the world monetary order.

This cannot be an encouraging situation On the one hand, the G7 politicians have an arrogant approach to markets and are constantly trying to rig exchange rates, often to avoid the implementation of awkward domestic economic adjustments On the other, the economic diplomats of the IMF and World Bank allow themselves and their bureaucracies to drift into the supporting role of developmental agencies whose resources are unavailable directly to private enterprise, where they would be more productively used, though at greater risk

A substantial case can, of course, be made that exchange rate volatility, far from being an aberration, is the natural order of things; and that markets have, through futures and options (made possible in turn by advanced technologies), adapted to the situation

Now that, at least among the G7, there is greater harmony of monetary and fiscal policy, the volatility is more likely to come not from the restraints placed by the member nations themselves on trade and financial flows — in almost every case for spurious economic reasons Justifications are sought, as with our own exchange controls, in economic terms for what amounts to bad governance

□ *Report by Nigel Bruce at the IMF and World Bank meetings in Washington*

SA on track to regain capital inflows — IMF

Cape Times 11/10/90 156

From SIMON BARBER

SA is doing almost everything right to regain access to international capital markets — according to a confidential report by an International Monetary Fund (IMF) staff mission

The report, due to be presented to IMF executive directors at their scheduled annual consultation on SA yesterday, says the key question now is how to meet the needs and expectations of a society in transition without wrecking this balance

The IMF's answer can be summarised as continued discipline, both monetary and fiscal, patience and — above all, as a matter of urgency — new inflows of foreign capital and investment

If these inflows can reach 3% of GDP, the report predicts that black employment will be expanding at a healthy 5,2% per annum by 1995, as opposed to 1% if the current situation persists

However, even with the prospects of fresh capital flows improving — and the real possibility that SA will once again have access to IMF facilities — now is not the time to reflate the economy, the report argues

"At this juncture, financial policies should not be aimed at directly stimulating growth"

The report says that the "effective constraint on economic opportunities" for blacks — IMF-speak for apartheid — has undergone a "considerable dismantling"

Tight monetary policies are laying the foundation for sustained growth A little more budget discipline would be useful But, overall, "the real macro economic balance of the economy has been made firmer than for some years"

Furthermore, the report says, in spite of continued calls for sanctions by the ANC and others, "the expectation of political and constitutional reform is leading to a reassessment by many potential foreign investors"

Reserve Bank Governor Chris Stals' "welcome" grip on the money supply should be viewed as a "medium term" proposition to wring the last inflationary expectations from the economy and keep exchange rates steady

Thanks to past "over-investment" in power generation and roads, public infrastructure expenditures can be held down in coming years

The report says that government should stop putting some major social expenditures off budget "New calls on resources cannot avoid careful assessment only because they have an obvious priority"

To avoid the temptation for further off-budget spending, the government would be wise to develop "new procedures for conducting open market monetary policy operations that avoid market borrowing in excess of budgetary needs"

The IMF report also recommends that the government should avoid any temptation to reduce taxes

"The aggregate tax burden does not appear excessive the staff would counsel tax reforms that bear a net revenue cost should be postponed until it is clear that there is budgetary room to meet that cost"

But it also urges the removal of the remaining import surcharge "as quickly as possible to avoid it becoming embedded in the tax and cost structures"

It offers a stiff warning to organised labour and those who might seek to appease it "Efforts quickly to redress income disadvantages of the black population through large wage claims" will not only be highly inflationary, but will "bear the risk of stifling the growth of needed employment opportunities" and of creating a new divide between a labour aristocracy and the unemployed

Wage differences reflect disparities in skill levels These can be addressed through improved education and training, "and then only slowly"

Closing gold prices

(In $ an ounce)

LONDON. 389,50/390,00
Fixing am· 392,20
Fixing pm· 391,80
ZURICH 388,00/391,00
(390,00/393,00)
NEW YORK 388,50/389,00
— Reuter

Reform, monetary policy acclaimed

IMF thumbs up for new loans to SA

156

B/Day 11/10/90

SIMON BARBER

WASHINGTON — The IMF has nudged international financial markets towards "concerted actions" to restore SA's access to foreign capital.

This year's confidential IMF staff report on SA gives President F W de Klerk's reform initiatives and Reserve Bank Governor Chris Stals's tight monetary policies unprecedented acclaim

Prepared for the fund's executive directors after its annual staff mission to SA in June, the report concludes government has achieved a "considerable dismantling of the effective system of apartheid".

In an a thinly veiled signal to international capital markets, it calls for concerted actions to "raise the economy's access to savings, both domestic and foreign".

Reversing the "major setback to growth potential... in the mid-80s" — a reference to the sudden refusal of international banks to extend further credit in 1985 — is termed a matter of urgency

The report says changes under way are most encouraging and promise for the first time in decades the opportunity to meaningfully address fundamental social issues that underlie economic weakness.

The report warns, however, that there can be no easy short cut to establishing a virtuous cycle of opportunities and wealth creation needed to overcome racial inequalities.

It bluntly recommends that "financial policies should not be aimed at directly stimulating growth" and finds that "the new purpose being applied by the Reserve Bank. . to the task of combating inflation is indeed welcome"

Reconciling the rising expectations of black South Africans with the economy's ability to satisfy them was one of the most difficult challenges facing the government.

In particular, excessive wage growth would present a clear inflationary threat and would foster a new income divide — between the few with well-paying jobs, and the many denied employment.

"Efforts to quickly redress income disadvantages of the black population through large wage claims bear the risk of stifling the growth of needed employment opportunities"

Instead, all South Africans needed to take the long view. "Wide skill and productivity differences can only be reduced with improvements in black education and training, and then only slowly."

The report says tight money, combined with an exchange rate that has remained broadly stable in nominal effective terms since mid-1989 have already significantly reduced demand and will lead to a lowering of inflation

Budgetary discipline is also deemed essential as the demands of a society in transition on the public purse become more urgent.

While noting that efforts have been made to trim spending and that the dismantling of apartheid structures like the tricameral system will itself produce important savings, the report insists that more needs to be done

● See Page 12

Boost for SA

156

Cape Times 11/10/90

IMF calls for new credit access

From SIMON BARBER

WASHINGTON. — The International Monetary Fund (IMF) has nudged the international capital markets towards "concerted actions" to raise South Africa's access to savings — both domestic and foreign.

This year's confidential IMF staff report on South Africa gives President F W de Klerk's reform initiatives and Reserve Bank governor Mr Chris Stals's tight monetary policies unprecedented acclaim

The report was prepared for the fund's executive directors on the basis of its annual staff mission to South Africa last June

It concludes that the government has achieved a "considerable dismantling of the effective system of apartheid"

Changes hailed

Reversing the "major setback to growth potential in the mid-'80s — a reference to the sudden refusal of international banks to extend further credit in 1985 — is termed a matter of "urgency"

The changes now under way are "most encouraging" and "promise for the first time in decades the opportunity to address fundamental social issues that underlie economic weaknesses"

The report warns, however, that there can be "no easy short cut" to establishing a "virtuous cycle of opportunities and wealth creation" needed to overcome racial inequalities

It bluntly recommends that "financial policies should not be aimed at directly stimulating growth" and finds that "the new purpose being applied by the Reserve Bank to the task of combating inflation is indeed welcome'

Inside:

SA SET TO REGAIN CAPITAL INFLOWS

See PAGE 10

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In particular, "excessive wage growth would present a clear inflationary threat" and would foster "a new income divide — between the few with well-paying jobs and the many jobless

'Efforts to quickly redress income disadvantages of the black population through large wage claims bear the risk of stifling the growth of employment"

Instead all South Africans need to take the long view "Wide skill and productivity differences can only be reduced with improvements in black education and training, and then only slowly"

Tight monetary policies combined with an exchange rate that has remained "broadly stable in nominal effective terms" since mid-1989 have already significantly reduced demand and "will lead to a lowering of inflation'

While exporters will see their profits eroded during the "disinflation process", the report predicts without qualification that "losses in competitiveness will not continue"

Budgetary discipline is also deemed essential as "the demands of a society in transition on the public purse become more urgent"

Medium-term goal

While noting that efforts have been made to trim spending and that the dismantling of apartheid structures like the tricameral system will itself produce important savings, the report insists that more needs to be done

The government's medium-term goal of restricting the budget deficit to 3% of Gross Domestic Product is insufficiently "ambitious" and the practice of placing certain major expenditures off budget should be discontinued

Furthermore "the aggregate tax burden does not appear excessive the staff would counsel that tax reforms that bear a net revenue cost should be postponed until it is clear that there is budgetary room to meet that cost"

The winning kiss

CONGRATS . . Winner of the Cape Times/Frasers International Big Walk's 80,4km event Mr Ephraim Morgan gives Ms Elizabeth Phillips a kiss at the finishing line. A Red Cross worker, Ms Phillips has personally assisted him for the six times he has won the race **Report and more pictures — Page 7.**

Picture RICHARD BELL

BUSINESS DAY, Friday, October 12 1990

IMF report will improve SA's image, say bankers

156

GRETA STEYN

IMF calls for "concerted actions" to give SA access to foreign capital, and its praise for SA economic policies, would improve the country's standing with foreign bankers, SA bankers said yesterday

While they did not expect any new inflow of long-term capital in the foreseeable future, they speculated that the IMF report could make it easier for SA to refinance the $600m (about R1,5bn) of debt falling due in the second half of this year A third of the debt falling due in the first half was refinanced.

They said trade-related foreign credits had become easier to secure since political reform started, but emphasised foreign banks remained sensitive about SA and preferred names and amounts to be kept secret. SA bankers were reluctant to be quoted on the nature of SA's business with overseas banks.

A government source reiterated yesterday SA had no intention of applying for an IMF loan, but said SA's response to the IMF's report mentioned it had been forced to "manufacture artificial current account surpluses". The IMF provides short-term loans to finance current account deficits.

The Department of Finance declined to comment on the foreign credit implications of the IMF report. However, Deputy Finance Minister Org Marais said SA would tackle its tax reforms in a manner consistent with IMF advice. The IMF warned against tax reforms that resulted in a net revenue loss because it wanted to see a zero deficit It regarded government's benchmark of 3% of GDP as too high and advised government to eliminate the need to borrow.

On tax reforms currently under way, Marais said the withholding tax on interest was unlikely to result in revenue loss, mainly because people were inclined not to declare income from interest earnings.

Rebates

Turning to VAT, he said the 10% rate recommended by the SA Chamber of Business at this stage seemed unlikely without a loss in revenue. Asked whether it was possible to reduce company tax rates without a loss in revenue, he said any reduction in company taxes would probably come about as a result of doing away with rebates The current tax rate was an effective 30%, while the nominal rate was 50% — and tax reformers' efforts were geared towards closing the differential between the two

● Comment. Page 8

The IMF word gets around

S Times 14/10/90

156

Business Times Reporter

A FAVOURABLE report on the SA economy by a team of International Monetary Fund investigators will boost SA's general creditworthiness.

But it won't help SA to get new loans from the IMF, says Reserve Bank deputy governor Jan Lombard

Dr Lombard said the report, supposed to be confidential but which was leaked in Washington, was routine in terms of the IMF article of surveillance

The report complimented SA's stringent economic policies and the country's political reforms.

"But the IMF won't lend to us until the US director on the fund is authorised by Congress to vote our way

"Still, the word gets around banking circles and will help if and when we make approaches."

ANC to fight IMF

BD 15/10/90 (156)

PETER DELMAR

THE ANC would resist any moves by the IMF to end SA's international credit isolation, the head of its economics and planning department said at the weekend

Department chief Max Sisulu said in an interview from Lusaka the ANC would raise objections "very strongly in every quarter" to any attempts by the IMF to initiate a restoration of SA's access to foreign loans.

He was commenting on an IMF staff report on SA which called for "concerted actions" to raise the economy's access to domestic and foreign savings

Sisulu was still waiting for a copy of the report, but reiterated that financial sanctions, including foreign loans, remained official ANC policy.

Stifling growth

He speculated that by compiling the report the IMF was "putting out feelers" to test opinion on the subject of restoring SA's access to foreign funding.

Sisulu declined to comment directly on the report's statement that large wage claims by black workers would risk stifling the growth of employment opportunities

However, he said the ANC was committed to realising living wages and did not consider economic growth and redistribution to be mutually exclusive

The latest ANC economic policy document, he pointed out, retained a heavy emphasis on creating growth through redistribution policies

SA's opponents rally to block IMF loan

Star 18/10/90 (156)

By David Braun
The Star Bureau

WASHINGTON — Speculation that the Bush Administration is about to support an application by South Africa for a loan of R5 billion from the International Monetary Fund has prompted a flurry of protests from US congressmen.

Congressman Bill Gray, majority whip in the House of Representatives, is circulating letters of protest for signatures among his colleagues

The letters, to be sent to Secretary of State James Baker, Secretary of the Treasury Nicholas Brady, and IMF managing director Michel Camdessus, protest in the strongest terms against any move to give South Africa an IMF loan until apartheid has been removed

The congressmen are warning the Administration that if the US supports a South African application there would be repercussions when Secretary Brady applies to Congress next year for $12 billion to replenish the US quota to the IMF

They maintain that a loan to South Africa would destroy the IMF's credibility with Congress.

The speculation about an imminent application from South Africa was sparked by the recent meeting between President de Klerk, Finance Minister Barend du Plessis and Mr Brady in Washington

Distortions

South African sources said at the time that the meeting concerned US investment in southern Africa once South Africa had resolved its constitutional problems US observers believe the meeting also concerned South Africa's possible request for an IMF loan

In terms of a 1983 US law, the US representative to the IMF may only vote in favour of a loan for South Africa if the US Treasury Secretary certifies that the loan would meet certain requirements

This would be that such funds would greatly reduce the labour supply rigidities and other economic distortions caused by apartheid, that an IMF loan would demonstrably benefit the majority, and that it is not available privately

Speculation was also fuelled by an interview given by US Assistant Secretary of State for African Affairs Hank Cohen to National Public Radio on September 26 when he said that the Bush Administration would not have any political objections to supporting an IMF loan to South Africa

Reserve Bank Governor Dr Chris Stals told Associated Press on September 27 there were no plans to apply for IMF loans "It would unavoidably lead to discussions of the situation with the US Congress and could embarrass us," he said

South African officials said yesterday this position remained unchanged

IMF argument against sanctions

SIMON BARBER (156)

WASHINGTON — Trade and financial sanctions are undermining SA's ability to create a more just social and economic order, the IMF's annual Recent Economic Developments report on SA concludes

"Until these constraints are lifted, the SA economy will create less wealth and consequently have less with which to address its pressing needs," says the 89-page confidential assessment which was circulated to fund directors on August 22.

In contrast to the ANC's economic policy paper, which calls for SA's "reconstruction" to be financed primarily from domestic savings, the IMF report places heavy exphasis on SA's need for foreign capital.

"Without access to foreign saving .. the economy will probably continue to stagnate and be unable to create enough jobs to avoid a secular rise in non-white unemployment" of about 1% a year, leading to continued severe economic inequalities

The conclusion is partly based on an economic model devised by IMF economist Tamim Bayoumi, who visited SA last June. B Day 25/10/90

In an appendix to the report, Bayoumi argues that "future growth and employment prospects ... depend to a large extent on increasing investment that would come from changes in policies that improve confidence and reopen access to foreign saving".

Star 29/10/90 (156)

Barend denies SA loan bid

By Peter Fabricius
Political Correspondent

Finance Minister Barend du Plessis believes anti-apartheid forces in America are spreading rumours that the US government is about to approve an International Monetary Fund loan for South Africa.

He was replying to rumours in Washington that the administration intended approving a loan of $5 billion (R12,5 million)

Mr du Plessis denied that South Africa had applied for an IMF loan

"And when we decide to access the IMF, we won't to it in the public eye That would be the worst thing, to generate advance reaction on Capitol Hill and inject new life into the anti-apartheid industry which is in its death throes"

It has been reported from Washington that hardline pro-sanctioneers in the US Congress have threatened to block new funding for the IMF if the administration supported an IMF application by SA.

Congressman Walter Fauntroy has argued in a letter to Treasury Secretary Nicholas Brady that change in SA was not "irreversible" because elements of the security forces and the extreme right wing were trying to destabilise constitutional negotiations

Mr Fauntroy hinted at retaliation by saying that a confrontation in the Congress over an IMF loan to SA "would render a serious disservice to the IMF which may soon be seeking congressional authorisation for US participation in a quota increase"

IMF 'held hostage' in US pro-sanctions move

156

SIMON BARBER

WASHINGTON — Hardline sanctions proponents in the US Congress are threatening to block new US funding for the IMF if the Bush administration supports an IMF loan application by SA.

In a letter to Treasury Secretary Nicholas Brady, they argue that change in SA is not "irreversible", as President George Bush contends, because "elements of the security forces and the extreme right wing" are attempting to "destabilise" constitutional talks.

The letter, drafted by Congressman Walter Fauntroy, chairman of the House Subcommittee on International Development, Finance, Trade and Monetary Policy, was prompted by remarks by Assistant Secretary of State for Africa Herman Cohen after President F W de Klerk's visit.

Cohen said on National Public Radio that the administration "would not have any political objections" to SA requesting an IMF loan.

The letter warns "A confrontation in the Congress over an IMF loan to SA would be most unfortunate and would render a serious disservice to the IMF, which may soon be seeking congressional authorisation for US participation in a quota increase."

Noting that the IMF executive board was to have held its annual consultations on SA on October 10, Fauntroy and the letter's co-signatories said "we hope this meeting is not a prelude to a loan request from Pretoria".

Under the Gramm Amendment to the 1983 Bretton Woods Agreement Act, the administration is required to oppose an SA loan request unless it meets certain technical conditions The proceeds would have to be used to help erode apartheid and to ease a genuine balance of payments crisis that could not be dealt with through private borrowing

Fauntroy and his colleagues wish to link

☐ To Page 2

BDay 24/10/90

Du Plessis refutes rumour

FINANCE Minister Mr Barend du Plessis believes anti-apartheid forces in America are spreading rumours that the United States Government is about to approve an International Monetary Fund loan to South Africa

He said he thought the intention was to stir up the dying sanctions debate in the US Congress and mobilise forces against South Africa

Du Plessis was responding to rumours in Washington that the US Administration intended to approve a loan of R12,5 billion to South Africa.

He denied that the country had applied for an IMF loan

"And when we decide to access the IMF we won't do it in the public eye That would be the worst thing, to generate advance reaction on Capitol Hill and inject new life into the anti-apartheid industry which is in its death throes," he said

Meanwhile, it has been reported from Washington that hardline pro-sanctioneers in the congress had threatened to block new funding for the IMF if the Bush Administration supported an IMF application by South Africa

The report said Congressman Walter Fauntroy had argued in a letter to Treasury Secretary Nicholas Brady that change in South Africa was not "irreversible" because elements of the security forces and the right wing were trying to destabilise negotiations - *Sowetan Correspondent*

Sowetan 30/10/90

(156)

African aid programme gets $8bn in pledges

156

WASHINGTON — The World Bank has received pledges for aid of between $7,5bn and $8bn over the next three years to help 21 poor, deeply indebted African governments that had accepted close monitoring of their policies by the bank and the IMF

The bank's Africa vice president Edward Jaycox said that unspecified amounts would come from 20 governments and international bodies, such as the bank itself and the EC.

Major contributors included the US, the EC, France, Japan, Britain, the Netherlands, and the Scandinavia countries

The money would not be used for big long-term projects but would be spent on the maintenance and rehabilitation of schools, clinics and machinery

The pledged contributions would be supplemented by $3bn to $3,5bn from the World Bank's International Development Association and $1bn to $2bn was expected from the IMF.

The pledges were part of the bank's second special programme of assistance for southern Africa.

Jaycox said that during the next three years he expected countries such as Kenya, Ghana, Togo and Gambia to graduate from the programme.

Countries such as Angola and Liberia might enter the programme — Sapa-AP

Let's not borrow money that'll only make us poorer

w/Mail 9/11 - 15/11/90 (156)

ANY parent will tell you that a child learns more from burnt fingers and grazed shins than from admonitions

Likewise Britain's Open University, where I taught for many years, produces a course, "Learning from System Failures" which explains why some bridges fall down, why faulty road design can lead to gridlock, and poor production lines generate bottlenecks It seems that only in economics are we poor learners from experience

Now is the time for South Africa to discuss what its relationship with organisations like the IMF and World Bank will be, before we find ourselves enticed into programmes that will make the poor poorer, argues

BEN TUROK
Director of the Institute For African Alternatives (IFAA) and author of a new book, *Mixed Economy In Focus, Zambia*

Despite the appalling track record of the World Bank and International Monetary Fund in the Third World, South Africa's business press is raising the prospect of their intervention in our economy We also hear of efforts by World Bank officials to interest leaders of the liberation movement Certainly World Bank officials are looking around the country and a report is promised by the end of the year

It is therefore appropriate to raise the question of what position the liberation movement should take towards the World Bank and the IMF before these bodies are encouraged to get too involved in our country

These institutions were created at the Bretton Woods Conference in 1944 held under United Nations auspices but at the instigation of the United States and Britain The main purpose was to lend money to members in order to finance temporary balance of payments deficits The Third World was only nominally involved and were not primary beneficiaries of their operations

Subsequently the Third World fell into severe difficulties due to the massive loans of petrodollars flooding the world economy after the Opec-induced oil price rises The IMF began making loans to these countries without recognising that their balance of payments problems were not temporary but structural, due to their subordinate position in the world economic system

Although the World Bank and the IMF have brought benefits to the industrialised world they have not done so to the Third World, least of all Africa where massive and increasing balance of payments deficits are wreaking havoc with the economies and with peoples living standards According to the 1990 World Bank annual report there was a net transfer of $156-billion from the Third World to the North from 1984-1990 The net payments from sub-Saharan Africa to the World Bank and IMF was $4,7-billion from 1986-1990 This notwithstanding that the conscience of the world was sensitive to the millions dying from famines and the growing destitution everywhere In sub-Saharan Africa (excluding South Africa) per capita incomes fell 75 percent from 1980-1988

The reason for the flows to the Bank and the IMF is that both institutions insist on operating on a commercial basis as banks and give primacy to the interests of their principle shareholders which are the major Western governments Their claims about sponsoring development must be seen in this context But more importantly, the cause for these negative South to North flows is the massive external debts in the South which are now worth $256,9-billion for Africa alone (93 percent of GDP and 328 percent of total exports) carrying an annual debt servicing of $25,3-billion , equal to 40 percent of export revenues Instead of moving towards a fairer world economic order we now have a dangerous polarisation between North and South with Africa being particularly marginalised

It also seems that we cannot take very seriously World Bank claims that "The World Bank's basic mission throughout its history has been to reduce poverty and accelerate growth Poverty alleviation is what economic development is all about Practically everything that the World Bank does, either in its lending or its policy work, bears directly or indirectly on poverty reduction " (1990 annual report) This has not been Africa's experience A major report by Unicef showed that the most disadvantaged were worst affected by World Bank policies which squeeze economies and cut public spending

The lesson for a post-apartheid South Africa is that there are no grounds for assuming that we will get better treatment than the rest of the Third World especially if new economic policies are adopted to regulate our international financial relationships

The main problem is the kind of development model that the IMF and the World Bank are imposing on Third World governments (and now also on Eastern Europe) This model is primarily concerned with external balances and some African experts believe that their purpose is to continue the extraction of monetary flows from the South

While this model is supposed to spawn economic growth it actually stifles development It is fundamentally anti-people going against the emerging consensus throughout the Third World that what is required is not short sharp spurts here and there but sustainable development which will integrate national economies, involve the marginalised masses in production and bring benefits to the population as a whole These are no mere empty slogans but the accumulated wisdom of the Third World over decades of false starts, spurious successes which soon fade, and unbalanced economic programmes

The World Bank and the IMF model imposes "structural adjustment programmes" (SAP) which require the reduction of demand and especially government expenditure, the increase of production for exports, and financial policy reforms The effect is to worsen conditions for the poor by reducing employment and cutting wages, increasing the price of basic commodities, especially food, cutting government expenditure on basic services such as health, education and sanitation In Africa between 1979 and 1983 expenditure per head on health fell by 50 percent and continued to fall thereafter The same applies to other social services Unemployment rates are now 60 percent among school leavers and 30 percent among graduates

If a post-apartheid South Africa falls for this model, it will frustrate all efforts at transforming the economy and making it more democratic It will also end all hope of humane social provision of basic needs for the millions of black people in our country

These issues need to be raised now because of the pervasive influence of the World Bank and the IMF throughout the world They have also perfected a technique of providing an enticing introductory offer which is however followed up by tough conditionalities later on Angola's first rescheduling of its external debt by the Paris Club was carried out "under exceptional conditions" because it joined the IMF Now, the second rescheduling requires the adoption of the full structural adjustment programme of the IMF and this will be very onerous considering that its debt now stands at $6 billion

What many African governments find so

To PAGE 38

Let's not borrow and be even poorer

W/Mail 9/11-15/11/90. 156

●From PAGE 36

disconcerting is the dogmatic attitudes of the World Bank and the IMF and the rigidity of their proscriptions. They have one recipe that all countries must adopt or fail to get the certificate of creditworthiness from the IMF which is now the passport for all credit, governmental or private. The European Community now insists on this certificate as do many commercial banks. Furthermore, countries have to accept the total package with its underlying philosophy of monetarism and free markets. At a recent meeting in London the head of the IMF insisted that Eastern Europe will have to go down this road since all experiments with a "third way" have failed. The implications for a future South Africa which wishes to develop a mixed economy and inward looking development will be a denial of IMF support

Despite the failures of the World Bank and the IMF they continue to demand observance of these conditionalities even when they themselves have been forced by the glare of critics to admit their lack of confidence in their own prescriptions. The World Bank vice-president for Africa, E Jaycox, admitted in an official publication that "neither the World Bank nor anyone else really has all the answers on what an effective adjustment programme should look like". Even more damaging is the statement that "it is very hard to predict the social impact of a given programme ... it is incredible how little is known about where and how to manage the social side".

Also potentially damaging is the emphasis on export promotion as a means for restoring financial balance. This policy has been pressed very hard on the Third World to the point where colonial-type trading patterns are being restored based on traditional commodity exports Unfortunately, world market prices are plummeting — the price of cocoa alone fell 50 percent in 1989 — so that the terms of trade move steadily against the Third World. For Africa the terms of trade fell by 31 percent between 1980-1987.

The emergence of a stronger Europe means that prices will remain low and protectionism increase so entry of African commodity exports into Europe will be even more restricted as can be seen from the recently adopted Lome 4 Convention between the European Community and a large group of Third World countries, and in the debates on GATT. European farmers have the political muscle to defend their prices and profits against external forces and there is nothing the World Bank and the IMF can do about it, nor do they seem willing to intervene in the interests of fostering development in the South. What hope has South Africa when 50 percent of its trade is with Europe and 80 percent of its exports still comprising primary products. (The imports of such products into Europe dropped 60 percent of the total between 1965-1987).

The Economic Commission for Africa, a UN body, has come out strongly against World Bank programmes, arguing that they will recolonise Africa. They also reject allegations that Africa's problems are primarily due to poor "governance" and weak management. It is conceded that Africa's elites have severely damaged the continent with consumerism, corruption and capital flight. Also that they are grossly undemocratic. But setting this to rights is an internal affair, which is actually getting the attention of ordinary people who are demonstrating across the continent for human rights and democratic government The ECA's role is to stress the importance of people-centred development, the need for an inward-looking strategy which is rooted in developing a country's own resources, both human and material, in short, collective self reliance.

Likewise South Africa should not be mesmerised by calls for foreign investment, boosting exports, and balancing our books. Far more important is to turn attention to a people-centred development paradigm which focuses our sadly under-used human resources and invests in training, education, and health We need a rapid improvement in living standards for ordinary people, as part of a scheme to make them more economically productive and incorporating their efforts in a total economic mobilisation of the country as a whole

Finrand goes when IMF resumes loans, says Stals

Star 13/11/90 156

By Neil Behrmann

LONDON — The Reserve Bank will phase out the financial rand when SA is allowed to borrow from the International Monetary Fund (IMF) again

When it decides to end the dual exchange rate system, the Reserve Bank is likely to enter the market to buy financial rands, says Governor Dr Chris Stals.

He was speaking yesterday at a conference organised by London brokers Smith New Court

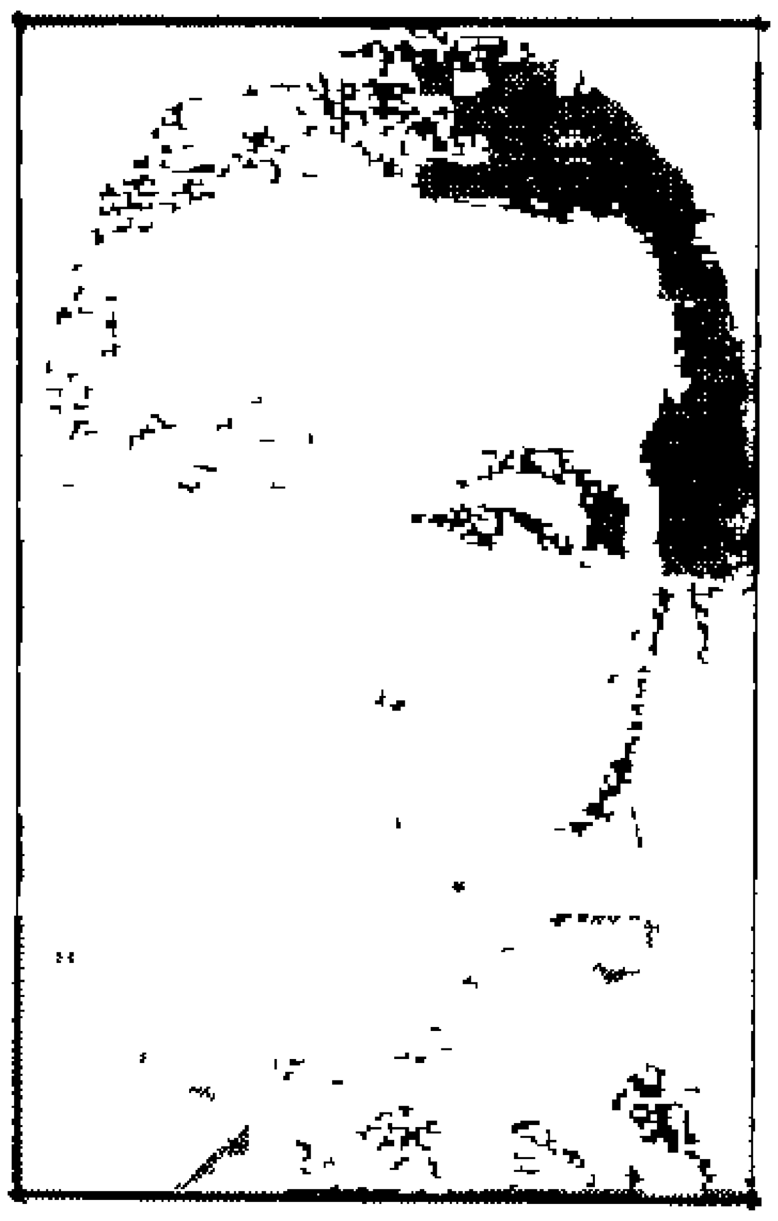
The eventual aim would be to eliminate the financial rand's discount to the commercial rand, he said. In the end the two currencies would become one

It would be a gradual process, he stressed.

If foreign nations agreed to abandon sanctions and the IMF began lending again, the Reserve Bank would be in a position to enter the market to buy financial rands, Dr Stals said

The financial rand, currently trading at about R3,66 to the dollar is at a discount of 31 percent to the commercial rand.

In practice, the Reserve Bank would refrain from buying financial rands aggressively, said Dr Stals If there were large-scale sellers, it would buy the currency from them



Dr Chris Stals . a gradual process

If, for example, the financial rand rallied by 10 percent to R3,30 to the dollar, and holders wished to take profits, the Reserve Bank would allow the currency to fall back to its market level.

The Bank might then decide to increase purchases again and the gap between the two currencies would narrow over a period of time.

The dual exchange rate system was scrapped by former Reserve Bank Governor Dr Gerhard de Kock in 1983, but reintroduced in 1985 when SA declared a debt moratorium.

Foreign investors held about $12 billion of SA shares and bonds, Dr Stals estimated Since a proportion of these securities were in firm hands, it followed that the financial rand was traded in tiny volumes.

It was thus an extremely volatile currency and the spread between buying and selling prices was one to two percent, he said, depending on the amount traded.

This was a far wider spread than that of the commercial rand. The currency was at the mercy of the gold share market, which changed from one of euphoria to gloom on relatively minor percentage changes in the gold price

South Africa's borrowing potential had improved markedly this year, said Dr Stals.

Since the foreign debt moratorium in 1985, its international borrowings had fallen to $20 billion from $24 billion.

The nation had been able to roll over 40 percent of the $13 billion in loans outside the net of the international debt rescheduling agreement

By 1993 SA aimed at repaying $1,5 billion of the $7 billion caught within the moratorium net.

Yet this did not imply that total debt would decline by then, said Dr Stals

In the interim period, SA would try and borrow more from abroad It desperately needed foreign funds, he said

After a net outflow of R6,2 billion in 1988 and R4,3 billion in 1989, the capital outflow amounted to about R1,5 billion in the first nine months of 1990

"SA actually had a net inflow of capital of about R1 billion — the first quarterly inflow registered since the first quarter of 1987," said Dr Stals.

Foreign debt only accounted for 70 percent of exports, against more than 300 percent for other developing countries, he said.

Following repayments over the past five years, total foreign indebtedness would also have been lower, had there been less borrowing in hard currencies such as Deutschemarks and Swiss francs

Both currencies had appreciated substantially against the rand and added to the overall debt burden, he said.

No IMF office for SA, says Govt

Star 16/11/90

(156)

By Peter Fabricius and Star Africa Service

The Government has denied reports that the IMF is to open an office in South Africa next year.

The report appears in the latest edition of the London newsletter Africa Confidential, which says the development would represent a strong signal of the world's readiness to end South Afica's isolation.

A government IMF expert said today the IMF only opened offices in the poorest countries while South Africa was classified as a medium-income country.

It was therefore unlikely that the IMF would ever open an office here

He also dismissed the interpretation in the report that the IMF was reconsidering its sanctions against South Africa "The IMF has no sanctions against South Africa. We are a member in good standing."

On the chances of South Africa's receiving an IMF loan, the official said that IMF loans were granted only to countries with balance of payments deficits

As South Africa currently enjoyed a surplus, it could not apply for a loan.

However, South Africa might apply for an IMF loan if the balance of payments went into deficit, which was possible.

If so, the American government would have the final say, as it had the power to block an IMF loan to South Africa.

Relationship

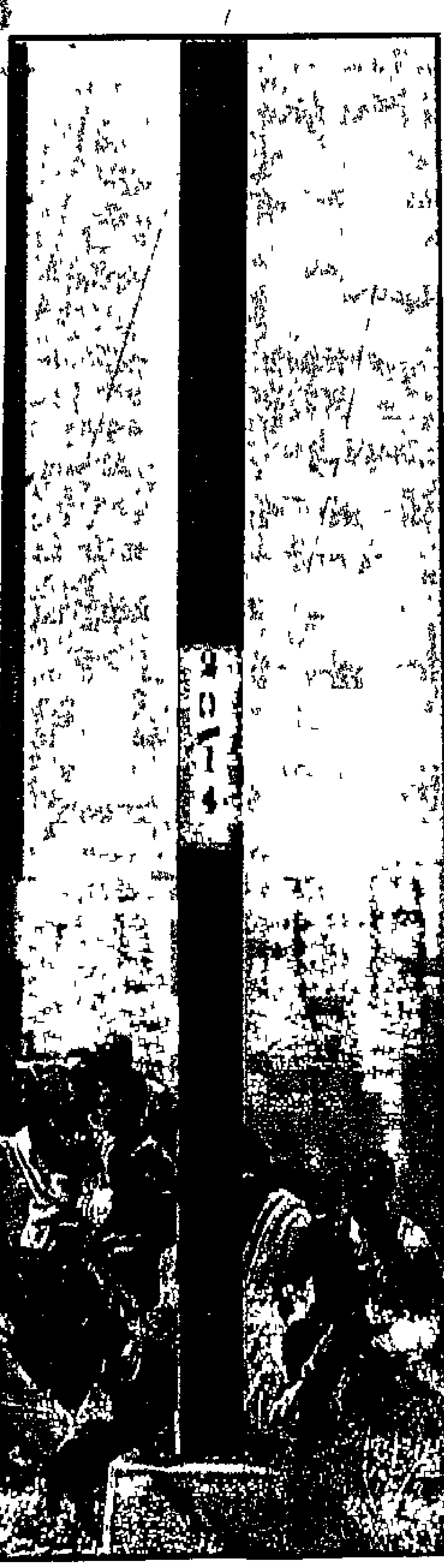
This depended on the interpretation of various laws and the relationship between the US Congress and the administration

Africa Confidential says it understands that the IMF plans to open an office in South Africa in June.

● Sanctions are crumbling with international trade increasing rapidly and a marked increase of foreign business visitors, the Durban Metropolitan Chamber of Commerce said today.

Recent positive political developments opening up new markets in Africa and Eastern Europe had resulted in a flurry of interest.

Trade enquiries from Hungary, Czechoslovakia, Poland, Romania, the Soviet Union, Madagascar, Zaire, Kenya and other African countries were commonplace, the chamber said.



quatter camp on the East Rand, Picture: Ken Oosterbroek

IMF ready to aid Third World countries hit by dearer oil

Star 16/11/90 (156)

PARIS — The International Monetary Fund (IMF) is considering emergency measures to help soften the blow of high oil prices on countries which are reforming their economies

Sources said yesterday the IMF was worried that sharply increased oil prices resulting from the Gulf crisis could derail economic adjustment programmes it had initiated in those countries

"The current high price of oil is not as severe as the crisis caused by the oil shock of the 1970s, but it has important implications for oil importers, especially in Africa," said a source.

The IMF board decided at its annual meeting in September to take immediate measures to help such countries and a rescue package could be announced within days.

"The IMF decided to respond quickly and introduce greater flexibility within facilities it has in place in these countries," he said

An IMF committee has proposed a package of measures, including prolonging its Structural Adjustment Facility and Enhanced Structural Adjustment Facility, which are on concessionary credit terms of about 0,5 percent interest

Some 24 developing countries, the bulk of them in Africa, have signed up for the two programmes

The IMF is now considering extending them for hard-pressed countries to four years from the original three — Sapa-Reuter.

Brady debt plan needs fine tuning to address problems — World Bank

B\Day 27\12\90 (156)

WASHINGTON — In another sign of growing discomfort with the so-called "Brady initiative" for highly indebted nations, the World Bank has suggested the plan now requires some "fine tuning" to address the problem of mounting official government debt.

The report, released as part of the "world debt tables", warns that the Brady initiative may contribute to problems for creditor governments by transferring credit risks from commercial to official sources, such as governments and the IMF and World Bank.

Although debt-reduction schemes have been worked out successfully for Mexico, the Philippines and Costa Rica, the study hinted that future agreements would be much more difficult to achieve and could result in a substantial drain on IMF and World Bank resources

"Argentina and Brazil represent special problems," the report says. "Their commercial bank debt alone is about $80bn Brady initiative support would increase official exposure to these countries significantly, if carried out under the terms and mechanisms used thus far."

Under the current debt-reduction scheme, the IMF and World Bank provide financial support for debts that are reduced by commercial banks There is also an overall trend toward more official government lending to hard-pressed nations as commercial sources of credit continue to dry up, even as arrears on payments owed to commercial banks continues to mount.

The report says the Brady initiative does not deal with the problems of severely indebted middle-income countries that have high levels of debt to official sources It notes that seven of the severely indebted middle-income countries owe more than half of their debt to official sources

As a remedy, it proposes that "there may be an argument for official debt relief on the grounds that high levels of official debt and debt service can cause uncertainty that may inhibit domestic and foreign investment and can reduce the incentives to adopt strong adjustment policies"

The Paris Club of creditor governments has helped the official debt situation by rescheduling debt-service payments, and creditor governments have helped provide relief to countries thta have undergone economic adjustment programmes by providing them with fresh financing.

Some creditors have also helped by rescheduling and reducing their bilateral debts to some of the most troubled nations. But these efforts have been limited In the US, for example, Congress voted to allow President George Bush to negotiate a reduction of some bilateral concessional loans to South American governments, but then refused to approve spending for the loan reductions, effectively gutting the proposal.

The Brady initiative, launched in March 1989, helps developing countries that have implemented economic reform programmes reduce their debt burden through a "menu of options" negotiated through bank advisory committees In the three agreements completed to date, the value of debt to commercial banks has been reduced by $9,5bn.

But the helpfulness of these reductions has also been in dispute. Although Mexico has experienced an increase in foreign direct investment, a return of flight capital and renewed access to external capital markets, much of Mexico's improved economic performance reflects its strong adjustment programmes, rather than debt reduction

The World Bank and IMF have repeatedly felt squeezed by the Brady plan as commercial bank lending becomes more scarce and the US urges the institutions to curb their lending — AP-DJ

US won't jump sanctions gun on IMF loans

By David Braun
Star Bureau Star 28/11/90

WASHINGTON — The US would be unlikely to support a South African application for a loan from the International Monetary Fund until after other American sanctions against the country had been lifted

US Assistant Secretary of State Mr Hank Cohen said this in an interview with The Star this week

Mr Cohen said that while it would be juridically possible to support an IMF loan for South Africa, it would be a political contradiction to do so until requirements stipulated by the 1986 Comprehensive Anti-Apartheid Act (CAAA) for the lifting of other sanctions had been met

It also made sense to first deal with CAAA sanctions because it would then be easier to interpret legal requirements governing support for an IMF loan in favour of an application by South Africa, he said

Mr Cohen said the US Administration had already decided that South Africa will have met four out of five of the CAAA requirements for the modifying or suspending of sanctions once all political prisoners had been released

The administration believed the repeal of security legislation was not a CAAA requirement

He was upbeat about the progress South Africa had made in 1990, saying the country had become the most open society in Africa

He said he would be disappointed if, by the end of 1991, negotiations for a new constitution had not aready begun and if the black leaders had not on their own initiative resolved the violence in the country

156

Top IMF man tainted by whispers of wrongdoing

B/Day 31/12/90

WASHINGTON — Jacques de Groote is a senior executive director of both the World Bank and the IMF, and as such helps to channel the $25bn or so a year in aid the organisations dispense.

He appears to lead a lifestyle beyond his means, with personal debts of $1m

It is De Groote's habit of turning for loans to people whom he has counselled on World Bank policy, however, which has led some observers to suspect a conflict of interest, the Wall Street Journal reported on Friday.

De Groote says these suspicions are false. He says that he has never used his position for personal gain, and that there is "no relation whatsoever" between his official positions and his personal finances

De Groote's activities do not appear to violate any policies at the World Bank and IMF

The lack of formal guidelines at these powerful organisations, and the secrecy with which they conduct their business, may have a bearing on a frequent complaint of critics that corrupt regimes still manage to get generous aid from the two

Zaire is often cited in this connection It owes the IMF and World Bank more than $1,6bn, yet President Mobutu Sese Seko has become one of the world's wealthiest men

De Groote, Zaire's long-time adviser, explains that corruption is simply a way of life there He has served Zaire on and off for 20 years. In 1967, it was he who urged the strife-torn Congo to adopt "zaire" as the name of its new currency Four years later the country took "Zaire" as its name.

De Groote, son-in-law of a former Belgian foreign minister, was chief economic adviser to the Zairean national bank He designed the Zairean economic overhaul

156

Agent

De Groote's official duties at the IMF and World Bank involve Belgium, several other European nations and Turkey; other directors are responsible for Zaire Yet when business involving Zaire has come up, De Groote has often involved himself.

De Groote is remarkably blunt about the rumours swirling around him He acknowledges that even at the World Bank and the IMF, some believe that he has acted as a paid Mobutu agent "I am not a money man," he says "If I wanted to obtain money, I could have done it very easily in Zaire,"

Nevertheless, in Belgium the suspicions have taken their toll, scotching his chances of governorship of the national bank in 1980.

De Groote was also mentioned in 1982 for the governorship of the central bank But this time the problem was his personal finances.

De Groote maintains he is not in financial distress. Besides his total income of $119 000 from the IMF and World Bank, he also shares income of $120 000 with his wife, who, he adds, will inherit money soon.

De Groote's more recent activities in Africa have once again focused on his old client, Mobutu In 1989, despite worsening Zairean corruption, government misspending and economic decay, De Groote began promoting yet another IMF undertaking being planned with Zaire The board approved the plan, and before long another $211m in loans was on its way.

Within months, alas, the reform programme was a shambles Mobutu was again spending too much on himself and not enough on his country Under IMF and World Bank regulations, the spigot was closed.

Today, Zaire's economy is crumbling Mobutu's days in power may be numbered But De Groote says that the bank and the fund need not apologise for helping to keep Mobutu in power for this long "We work with imperfect data sometimes, imperfect political systems, highly imperfect local people sometimes," he says "But we try to make the most out of it" — AP-DJ

I. M. F. – 1991

IMF cautions Harare on confidence

MICHAEL HARTNACK

HARARE — Maintaining the confidence of investors would be central to President Robert Mugabe's planned land reform programme, IMF MD Michel Camdessus warned yesterday

After two days of talks on urgent economic restructuring, he gave IMF endorsement to a R42bn, five-year Zimbabwean structural adjustment plan aimed at moving away from the command economy introduced by Ian Smith's Rhodesian government to fight international sanctions, and preserved by Mugabe for socialist goals.

"Socialism has failed," the French banking expert said at a news conference at the conclusion of his visit.

Zimbabwe's senior Finance Minister Bernard Chidzero disclosed that most of the estimated R42bn was scheduled to come from sources such as increased export earnings, but a crucial R2,38bn would be needed from private investment.

Camdessus tried to parry questions about the impact of Mugabe's recent controversial constitutional amendment removing farmers' right of appeal against nationalisation, but conceded it could have a major effect on Zimbabwe's planned "donors conference" in Paris next month.

"The land reform can be the best or the worst thing, according to the way in which it is implemented," said Camdessus. "The confidence element is central."

Camdessus glossed over problems that wrecked the IMF's last assistance programme for Zimbabwe in the early years of independence. In 1984, after granting Mugabe special drawing rights of about US$300m, the final $125m was cancelled because of IMF discontent at soaring spending on social services and defence.

21/12/91 BD 13/08/94

Reduction

(156)

He welcomed the improved political climate in southern Africa. "It is my dearest wish that reduction of tension in the area could allow Zimbabwe to devote more resources to its economic objectives."

He said Zimbabwe suffered a 26% unemployment ratio

Camdessus said he was impressed by the courage and determination of the Zimbabwean government to carry through its planned economic liberalisation.

"But this is due to the fact that the country recognises there are no alternatives to such an effort," said Camdessus, who arrived from Maputo on Tuesday and flew on yesterday to the Zambian capital on the last stage of his southern African tour.

He did not spell out how much IMF aid would be given Zimbabwe, only stating that the fund would urge donors to back it.

When Camdessus met local business leaders on Wednesday night Chidzero rounded on the chief executive of Zimbabwe's Commercial Farmers' Union, David Hasluck, and urged his 4 500 members to "stop moaning and groaning about the land issue".

Hasluck protested that he had not raised the land controversy. Zimbabwe Chamber of Mines president Elias Ngugama had asked Camdessus whether removal of entrenched constitutional guarantees against nationalisation might scare off foreign financial support.

"Do not be cowards," Chidzero chided commercial farmers. "Have faith and confidence. I must emphasise as strongly as I can our reform programme on land is not to dispossess people, it is to utilise land."

Access to foreign finance could ease

BDay 4/2/91 GRETA STEYN (156)

SA could expect "more normal" relations with the IMF as a result of political reforms announced on Friday, Reserve Bank Governor Chris Stals said at the weekend.

"Once SA can count on IMF credits in times of balance of payments problems, its creditworthiness in general will improve. Our access to foreign sources of finance will be greater once it is certain that we can fall back on the IMF," he said.

However, any action on trade or financial sanctions would be some months off.

Government believes financial sanctions have harmed SA more than trade sanctions, with econometric estimates showing that the growth rate could be more than doubled with greater access to foreign capital.

Bankorp economist Nick Barnardt said foreign capital inflows would be the key to sustaining the next upswing, reports SHARON WOOD.

"Previous business cycles have shown foreign capital is needed to sustain growth since import demand surges during an upswing," he said.

☐ To Page 2

Foreign finance

BDay 4/2/91 (156) ☐ From Page 1

The EC said on Friday sanctions could be eased if the reform initiatives were implemented.

US government spokesmen pointed out that one condition still remained before sanctions determined by the Comprehensive Anti-Apartheid Act could be lifted — the full release of political prisoners.

They also noted that reform would have to be implemented before action would be taken.

Economists emphasised SA's trade and economic growth would not receive an immediate boost once sanctions went.

ZILLA EFRAT reports Safto CE Wim Holtes as saying the number of recent business visitors from the US, Europe, Scandanavia and the Far East had been overwhelming. Many were looking at the possibilities in anticipation of apartheid's demise.

Trade with the US, which in 1985 was SA's major partner, was expected to improve dramatically when sanctions fell away. However, because SA's trade with Europe had grown between 40% and 50% a year over the past two years, he did not expect increases there to be as marked.

Holtes warned that a major constraint could be product availability. South Africans would have to improve productivity and introduce additional shifts. The demise of sanctions would create an incentive for increased investment in export production capacity and would also bring in foreign investment aimed at exports.

IMF big freeze begins to thaw

Cpt Times 7/2/91

156

Own Correspondent

JOHANNESBURG. — In another signal that South Africa is returning from the financial cold, the managing director of the International Monetary Fund, Mr Michel Camdessus, will soon meet senior government ministers while on a stopover visit.

And a senior two-man IMF delegation which met government, economists and the ANC in South Africa about two weeks ago, told some of these meetings it was expected that the US Congress would soon scrap the Bretton Woods Amendment Act of 1983.

This act requires the US to block loans by the IMF while apartheid remains in South Africa. Some government sources are equally optimistic that the act will soon go.

Finance Minister Mr Barend du Plessis invited Mr Camdessus to visit South Africa when the two met at the annual IMF meeting in Washington in September, but the offer was declined because of the Mr Camdessus's tight schedule.

Significant

Mr Camdessus's visit, which will not have official status, is significant because for several years now he has not made himself available to meet Mr Du Plessis.

SIMON BARBER reports from Washington that Mr Camdessus will stop over on his way to a meeting with African Central Bank governors in Gaberone.

The visit by the two-man mission of European-based IMF senior representatives, Mr Desmond Lachman and Mr Massimo Russo, was unusual in that normally IMF staffers only visited mid-year for their annual review of the economy.

Individuals who met the mission said the IMF staffers were interested in long-term development in South Africa, and particularly in how ANC strategies might affect matters such as government expenditure and the independence of the Reserve Bank.

● OAU firm on sanctions — Page 3

● Gold falls $6 — Page 10

Flying visit by Camdessus (156)

IMF chief to meet senior govt officials

B/Day 7/2/91

KEVIN DAVIE

IN ANOTHER signal that SA is coming in from the financial cold, the head of the IMF, Michel Camdessus, will soon meet senior government Ministers while on a stopover visit.

And a senior two-man IMF delegation which met government, economists and the ANC in SA about two weeks ago told some of these meetings it was expected the US Congress would soon scrap the Bretton Woods Amendment Act of 1983 (also known as the Gramm Amendment)

This Act requires the US to block loans by the IMF while apartheid remains in SA Some government sources are equally optimistic the Act will soon go A source said he believed it could be repealed as early as April.

Finance Minister Barend du Plessis invited Camdessus to visit SA when the two met at the annual IMF meeting in Washington in September, but the offer was declined because of the IMF MD's tight schedule.

Du Plessis confirmed yesterday that he had made such an invitation to Camdessus. He said he recently heard that Camdessus regretted that his tight schedule prevented him from visiting SA.

Camdessus' visit, which will not have official status, is significant as for several years now he has not made himself available to meet SA's governor at the IMF, Du Plessis. The September meeting was the first time the two met

SIMON BARBER reports from Washington that the IMF said Camdessus would "stop over briefly" in Johannesburg later this month on his way to a meeting of African central bank governors in Gaborone.

IMF officials skirted the question of whether Camdessus would have talks with SA officials, saying only that the SA government would "extend its courtesy"

Camdessus is also scheduled to hold talks in Lusaka, Harare and Maputo.

On the IMF's overall position on SA, an official said that SA's balance of payments position and current account were "strong.... We have not been approached by the SA government for assistance any time soon"

US law still requires the US representative at the IMF to oppose any SA loan request. However, the law could change when the administration asks Congress for funds to replenish IMF reserves later this year

Both government and the IMF apparently intend keeping the Camdessus visit low key The meeting is scheduled for Jan Smuts Airport No media briefings are planned

One source said the only reason for the visit was that Camdessus would be in the region, and would see officials in SA as the country was a member nation

The visit by the two-man mission of European-based IMF senior representatives, Desmond Lachman and Massimo Russo, was unusual in that normally IMF staffers visited only mid-year for their annual review of the economy.

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☐ To Page 2

IMF chief

B/Day 7/2/91 (156)

☐ From Page 1

IMF staff members were interested in long-term development in SA, and particularly in how ANC strategies might affect matters such as government expenditure and the independence of the Reserve Bank. Lachman and Russo met an ANC delegation headed by international affairs head Thabo Mbeki.

They were positive that the Bretton Woods Amendment Act would be repealed by Congress, a source said.

The staff members stressed SA should not look to the IMF to fund development, but that this should come from the international capital markets.

ANC is to meet IMF chief

KEVIN DAVIE

THE ANC will meet IMF MD Michel Camdessus during his one-day stopover in SA, the ANC's international affairs administrative secretary Yusuf Saloojee said yesterday

Saloojee and ANC foreign affairs chief Thabo Mbeki made up a two-man delegation which met senior IMF staffers Desmond Lachman and Massimo Russo in SA about two weeks ago It was the first formal contact between the two bodies

The IMF mission was told it should not grant any loans to SA until there was an interim government in place, Saloojee said in an interview yesterday.

"They outlined the conditions SA has to meet before it can get IMF loans, and said these conditions (requirements by the US Congress) have not yet been met," he said

Saloojee, who described the meeting as very productive, said the IMF staffers had explained their criteria for lending and had expressed their concern that the SA economy was in a bad state (156)

"They were very concerned about social economic needs," said Saloojee

ANC economic policy had been discussed

"They have perused our Harare policy document, and said in essence it was a good approach," Saloojee said.

The possibility of the IMF providing training for ANC members was also dis-

□ To Page 2

Bday 28/1/91

IMF chief

Bday 4/2/91

(156)

□ From Page 1

cussed, although the staffers stressed the IMF usually worked with governments.

Saloojee said IMF lending policy was explained at great length, particularly the reasons why the IMF made loans with stringent conditions attached.

He said there had been no discussions with government regarding the IMF The ANC delegation which will meet Camdessus at Jan Smuts airport will include representatives of international affairs, economics and finance

Finance Minister Barend du Plessis and other senior ministers will meet Camdessus during his stopover.

It is the IMF chief's first visit to SA.

□ Foreign investors are not interested in investing in either Africa or SA, says ANC economist Tito Mboweni

Mboweni has just returned from the World Economic Forum, a leading investment conference, held at Davos in Switzerland.

Other South Africans who attended included government representatives, Education and Training Minister Stoffel van der Merwe and Deputy Foreign Minister Leon Wessels, and an Inkatha member, Musawenkosi Myeni

Mboweni said there was little interest shown in SA Only about 60 people attended the debate on SA.

Mboweni said short-term prospects were not positive.

"SA needs to be able to demonstrate it is a stable area for investment. Businessmen look for stability," he said, adding that SA had to move to create a stable society

Top world bankers in SA this week

156 CM Tmf 11/2/91

WASHINGTON — SA will have full access to the credit and development funds of the World Bank and IMF restored as soon as the EC lifts sanctions.

This is one of the messages which will be carried this week from Washington to SA by a team of World Bank and IMF economists.

EC sanctions are scheduled to be lifted "in a matter of weeks", possibly as early as February 19 when EC foreign ministers meet.

The IMF-World Bank delegation will meet secretly with Reserve Bank governor Dr Chris Stals and other top Pretoria officials Reports have said that IMF managing director Mr Michel Camdessus will pay a one-day visit to SA later this week.

At stake are billions of rands which SA would be entitled to borrow from both the concessionary job-creating programmes of the World Bank and hard currency loans which it could take to stabilise its export industries.

Officials of the two agencies say they are following the lead of the EC foreign ministers who have tied the lifting of sanctions to the successful adoption of anti-apartheid measures proposed by President F W de Klerk to Parliament a week ago.

Investments

Returning SA to the World Bank-IMF fold and lifting economic sanctions would leave the US alone among the major boycotters.

US investments approached R7,5 billion in the mid-1980s but have shrunk to R1,875 billion, mostly in mining.

One of the tricky questions is whether SA will take its place as an African member on the executive boards of the two institutions.

Until its suspension from the executive board 15 years ago, Pretoria had been part of a block of former British colonies including New Zealand and Australia. — Daily Telegraph

EC move will open door to world funds

(156)

BDay 11/2/91

Own Correspondent

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Returning SA to the World Bank-IMF fold and lifting economic sanctions would leave the US alone among the major boycotters

US investments approached $3bn in the mid-1980s but have shrunk to $750m, mostly in mining

One of the tricky questions is whether SA will take its place as an African member on the executive boards of the two institutions

Until its suspension from the executive board 15 years ago, Pretoria had been part of a block of former British colonies including New Zealand and Australia — Daily Telegraph

● Comment: Page 8

NEWS FOCUS

Stals pins growth hopes on lower capital outflow

156

BDay 14/2/91

GRETA STEYN

SA's next upswing is set to be longer and more vigorous than the mild activity of the 1987/88/89 growth phase, reflecting a dramatic improvement in the country's foreign capital situation.

Says Reserve Bank Governor Chris Stals "You may ask what will trigger the new upswing An improvement in the capital outflow situation would provide an important stimulus to new growth in the country"

Already SA has seen a signficant improvement in the capital account of the balance of payments (BoP) Last year's capital outflow shrank to only R2,5bn after an average annual outflow of R5,4bn in the preceding five years The performance is all the more impressive as SA's debt commitments last year added up to more than R6bn More than half the maturing loans were either extended, rolled over or replaced by new loans

In January, the Bank was able to wipe out its short-term foreign liabilities because of a foreign exchange inflow of more than R1bn during that month While this inflow is not necessarily evidence of any capital inflows, it is proof there are no substantial outflows The Bank now has zero foreign liabilities — for the first time in 10 years

Political reforms announced by President F W de Klerk are expected to ease further pressure on the BoP Stals expects the reforms this year to lead to the lifting of the Bretton Woods amendment that forces the US to vote against IMF facilities for SA, a better relationship with the World Bank and with international bankers

"Our first objective is that the net capital outflow will at least return to zero That will already provide an important stimulus to the domestic economy For six years we have been using our domestic savings to repay foreign debt If only we could come to a situation where we can use our total savings in the domestic economy it would provide an immediate overnight stimulus to development"

● STALS .. upswing will take time

Simpson McKie economist Graham Boyd calculates that a zero capital outflow combined with 4% growth in exports could generate an average annual growth rate of more than 4% over the next five years This represents an impressive improvement over the average growth rate of about 1,5% over the past five years.

The restoration of IMF facilities will be of great importance for the next upswing

Stals says "If we have access to IMF facilities we can live very easily with a zero surplus on the current account, which has implications for domestic economic policy You can stimulate the economy, knowing this will lead to an increase in imports that will reduce or eliminate the current account surplus"

His target for reserves is three months' import cover (about R16bn) The Reserve Bank at present has less than half of that, but access to the IMF would immediately add more than R3bn to the country's foreign exchange reserves International bankers will also be more willing to provide finance once they know SA can fall back on the IMF

Stals believes it will be "very easy" for SA to generate the need for IMF assistance within the next two years While he is adamant the stimulus for growth should not come from monetary policy, it is clear the fiscal stimulus will grow Not only central government, but organisations like the Independent Development Trust will begin having an effect on the economy in the next year

Stals also notes the possibility of development capital from the World Bank. SA did not qualify for World Bank assistance because of a "too high" per capita income of about \$2 400 The World Bank had not taken into account the skewed nature of SA's income distribution in excluding it from access to finance But the Bank is apparently ready to take this into account and has also changed its policy to grant loans to countries with per capita incomes of up to \$3 000.

Stals cautions against expecting the next upswing to start soon A strong economic recovery will most probably only follow after some visible consensus has been reached on a new political dispensation

"Until then it will befit us to continue with a policy of consolidation, of preparing a sound financial basis for sound and sustainable economic growth in the new SA"

IMF boss to meet Stals, Barend

156

ST Times 13/2/91

By MIKE ROBERTSON

INTERNATIONAL Monetary Fund chief Michel Camdessus flies into SA today for a one-day private visit in which he will hold talks with Finance Minister Barend du Plessis, Foreign Minister Pik Botha and Reserve Bank governor Chris Stals

South African officials declined to confirm the visit, but it is understood Mr Camdessus will meet the ministers at the old Presidency in Pretoria before attending a function at the Development Bank at Midrand

Mr Camdessus is stopping over in SA en route to Maputo in Mozambique

Mr Du Plessis invited him to visit SA when the two met at the annual IMF banquet in Washington last September. The offer was declined at the time because of the IMF chief's busy schedule

In terms of the Gramm Amendment of 1983, the US has been required to block IMF loans to SA as long as apartheid remains

Govt meets IMF MD

Finance Staff 156

The MD of the IMF, Michel Camdessus, met state officials on an unofficial visit to SA yesterday.

The visit, the first by a head of the IMF in years, was described as a fact-finding mission

After meeting Foreign Minister Pik Botha, Finance Minister Barend du Plessis and other finance officials in Pretoria yesterday morning, Mr Camdessus consulted with private businessmen and economists of other parties, including the ANC

Star 12/6/90

IMF boss on 'flying' visit' to SA

156

CAPE TIMES 18/2/91

Own Correspondent

JOHANNESBURG. — The managing director of the International Monetary Fund, Mr Michel Camdessus, yesterday met senior government officials in Pretoria in the most high-powered contact South Africa has had with the IMF for many years.

The unofficial visit by Mr Camdessus, who was en-route to Maputo, was understood to be the first visit by a managing director of the fund to South Africa since the '70s.

The South African team was led by Minister of Finance, Mr Barend du Plessis and included Foreign Minister Mr Pik Botha, Reserve Bank governor Dr Chris Stals, Development Bank chairman Dr Simon Brand and finance director-general Dr Gerhard Croeser.

The IMF party was scheduled to include L B Monyake from Lesotho, who is alternate executive director for English-speaking African countries. SA is most likely to join the African grouping when its relationship with the fund is restored.

The African grouping controls 2,85% of the IMF vote. A post-apartheid SA is said to be a desirable member as it would boost this vote by a further 1%.

News blackout for visit of Camdessus

Top IMF man meets senior SA officials

156

BDay 18/2/91

KEVIN DAVIE

IMF MD Michel Camdessus yesterday met senior government officials in Pretoria in the most high-powered contact SA has had with the IMF for many years.

Camdessus's visit, which does not have official status, is understood to be the first visit by a managing director of the fund to SA since the 1970s

The SA team was led by Finance Minister Barend du Plessis and included Foreign Affairs Minister Pik Botha, Reserve Bank Governor Chris Stals, Development Bank chairman Simon Brand and Finance Director-General Gerhard Croeser

The visit took place under a news blackout Officials said that no statements, interviews or picture opportunities were planned

No reasons for the secrecy were given, but it could be that both parties regarded the visit as private.

Government sources have stressed that Camdessus was simply on a stopover en route to Maputo, and decided to see officials here as SA is an IMF member.

The meeting took place at the state guest house, Ou Presidensie Camdessus arrived in Lusaka on Saturday and was scheduled to depart yesterday evening for Maputo It is understood that his southern African visit will also include Gaberone and possibly Harare.

Camdessus's meeting yesterday morning was followed by lunch at Ou Presidensie, a helicopter tour and a scheduled meeting later in the afternoon with a cross-section of people at the Development Bank in Midrand

Those invited to meet Camdessus yesterday afternoon included ANC economist Tito Mboweni, ambassador-designate to Washington Harry Schwarz, Stanbic MD Conrad Strauss, Anglo American economist Aubrey Dickman, Sacob director-general Raymond Parsons, Jan Steyn of the Independent Development Trust, and Soweto civic leader Dr Nthato Motlana

The IMF party was scheduled to include three other members, including L B Monyake from Lesotho. Monyake is alternate executive director for English-speaking African countries at the fund

SA is most likely to join the African grouping when its relationship with the fund is restored to normal

The English-speaking African grouping controls 2,85% of the vote at the IMF as it contributes the same percentage of funds. A post-apartheid SA is said to be a desirable member as it would boost this vote by a further 1%.

Camdessus reassures ANC

BDay 19/2/91

KEVIN DAVIE

156

IMF MD Michel Camdessus is aware that SA faces serious problems in areas such as unemployment, says ANC economist Tito Mboweni

Mboweni and Max Sisulu, of the ANC's economic planning department, met Camdessus in Johannesburg on Sunday when the IMF chief stopped over en route to Mozambique.

"He said there was a massive task ahead," Mboweni said yesterday.

Camdessus had stressed to him that he was on his way to Maputo, was in transit, and had visited SA only at government's insistence. "He gave the assurance that there was no move from previous policies. The visit was accidental."

Camdessus is visiting African states with Lesotho's L B Monyake, executive director of Anglophone African countries in the IMF. This group includes Angola and Mozambique

"His visit was part of a broader southern African trip. Monyake is visiting his constituency and bringing the MD into the area," Mboweni said

He said unofficial discussion with Camdessus at the Development Bank covered the state of the economy, the need to restructure it and possible growth objectives. Mboweni said the IMF gave greater emphasis to social investment than it had in the past.

Ano reports from Maputo that Camdessus met Mozambican Finance Minister Abdul Magid Osman and Bank of Mozambique Governor Eneas Comiche yesterday.

Camdessus arrived in Maputo late on Sunday night for a two-day visit

He was expected to meet Foreign Minister Pascoal Mocumbi and Co-operation Minister Jacinto Veloso before dining with President Joaquim Chissano last night.

The IMF delegation will also meet Mozambican businessmen and Maputo representatives of the donor community.

IMF visit first in decades

Sowetan 21/2/91

156

INTERNATIONAL Monetary Fund managing director Mr Michel Camdessus visited South Africa this week, marking the first visit by an IMF chief to the country since the 1970s.

By ALI MPHAKI

Camdessus met ANC, PAC, Government and Reserve Bank officials privately before jetting out to Mozambique, where he was scheduled to meet President Joaquim Chissano and Foreign Minister Mr Pascoal Mocumbi.

Mr Tito Mboweni and Mr Max Sisulu of the ANC's economic planning department held talks with him on Sunday, as well as the PAC deputy leader Mr Dikgang Moseneke

Mboweni said the IMF chief was aware that South Africa faces serious problems in areas such as unemployment.

But he said the IMF would not depart from previous policies.

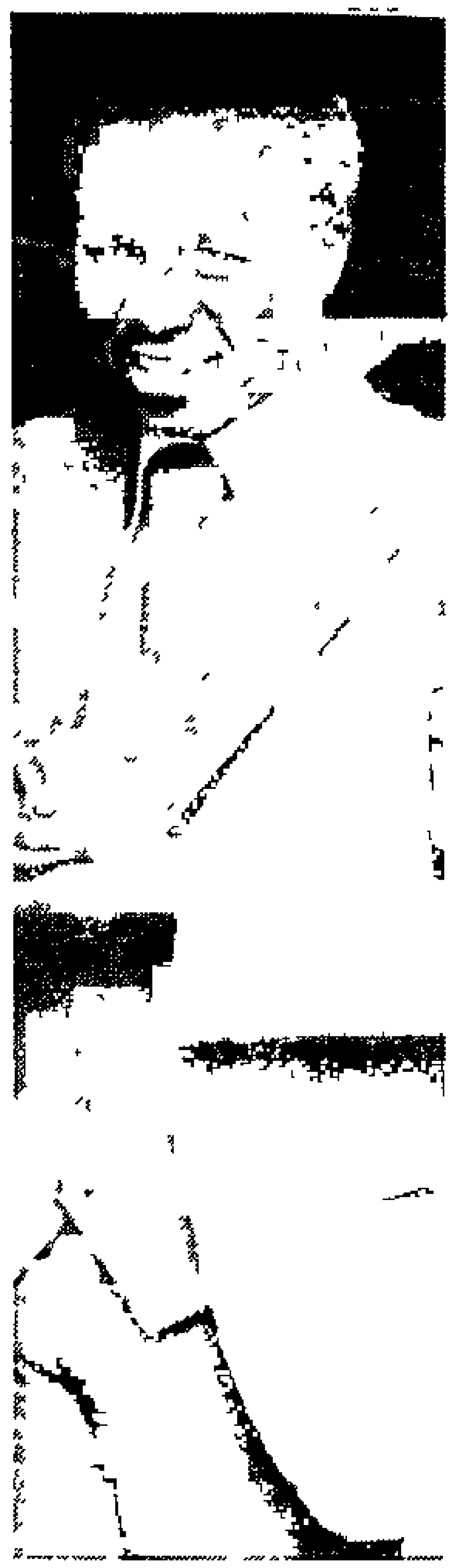
South African access to IMF funding is blocked by the United States 1983 Gramm Amendment Act, which requires Washington's IMF to deny loans to Pretoria while apartheid remains

Camdessus was accompanied by IMF executive director for English-speaking African countries Mr LB Monyake

Their unofficial visit was at the insistence of the South African Government following a meeting between Camdessus and Finance Minister Barend du Plessis at the annual IMF dinner in Washington last September

Government officials say that while South Africa is unlikely to require IMF loans because it has no balance of payments problem, renewed access would unlock other sources of finance

Reserve Bank Governor Mr Chris Stals has said: "Lenders will feel much more comfortable with their exposure in South Africa if they know we have such a backstop facility, that we can go back to the IMF like any other country and apply for assistance if we do run into a balance of payments problem," he said



PAC deputy leader Mr Dikgang Moseneke met with a top IMF official this week.

IMF experts fly in to advise govt on VAT

KEVIN DAVIE (156)

AN IMF team of experts has flown in to help advise government on how to implement VAT, including the rate at which to set the new tax.

The experts will also offer advice on the final drafting of VAT legislation, which will take effect in October

The IMF team will meet more than 20 groups across the political spectrum before making its report in about two weeks' time It has been handed a copy of recommendations by the government-appointed Vatcom, whose report is due for release next week. B|Day 22|2|91.

The three-man IMF team led by Ved Ghandi, arrived on Sunday on a separate flight to that of MD Michel Camdessus, who was on a stopover visit.

The IMF's input may affect this year's Budget since VAT will be a revenue earner for the fiscus from October.

Government will also introduce schemes to alleviate poverty, and if VAT is included on foodstuffs, additional provision will have to be made to aid the poor.

An interim report on poverty alleviation has been completed which envisages a nutrition intervention programme or "life net", but the financing of the programme could depend on the final recommendations by Vatcom and the IMF.

Food may still get a zero rating or a reduced rate. If VAT is charged at the full rate then substantial food subsidies are likely to be introduced.

Asked yesterday if the team's presence suggested links between SA and the IMF were improving, Deputy Finance Minister and Vatcom chairman Org Marais said he hoped it would strengthen the relationship.

The visit follows an invitation by Finance Minister Barend du Plessis to the IMF at the annual meeting in September.

Marais said IMF principles had been closely followed, but Africanised. "We've taken their principles and married them to SA conditions," he said.

● See Page 3

IMF to help govt with 'life net'

156

Cape Times 18/2/91

Own Correspondent

JOHANNESBURG — Finance officials are to meet IMF representatives in Pretoria today to discuss the implementation of government's "life net" strategy for the poor, a finance source said at the weekend

Government is to announce direct aid of at least R600m to the poverty-stricken in next month's Budget after an urgent probe into poverty by Finance deputy director-general Estian Calitz Calitz, who could not be reached for comment yesterday, is expected to attend the meeting with the IMF officials who arrived in SA a week ago

It is believed finance officials have identified key problem areas in implementing the plan to combat poverty, and that these could be ironed out with the help of the IMF They want to establish the most effective way to reach the 2m people they regard as critically poor

It is understood government would prefer existing development agencies and independent welfare organisations to distribute the aid rather than to handle the practical implementation itself — a move which raises the issue of accountability Representatives of these organisation are expected to attend today's meeting.

Government does not want to appear to be forcing its plans on to communities without consulting the people involved, and the issue of consultation with the ANC and other public representatives is likely to be discussed Securing the goodwill and co-operation of the communities involved is understood to be a priority

Finance officials want to keep the administration costs and "leakages" to those who do not need aid to an absolute minimum

Methods of providing subsidised or free food to the poor will be discussed, including school feeding schemes and providing help through health clinics

IMF in 'life net' talks with Pretoria

156

BDay 25/2/91

GRETA STEYN

FINANCE officials are to meet IMF representatives in Pretoria today to discuss the implementation of government's "life net" strategy for the poor, a finance source said at the weekend

Government is to announce direct aid of at least R600m to the poverty-stricken in next month's Budget after an urgent probe into poverty by Finance deputy director-general Estian Calitz. Calitz, who could not be reached for comment yesterday, is expected to attend the meeting with the IMF officials who arrived in SA a week ago

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Govt might allow relief groups to distribute R600m

BDay 26/2/91 (156)

KEVIN DAVIE

GOVERNMENT could make use of up to 2 000 non-government organisations (NGOs) to distribute R600m in poverty relief to millions of South Africans.

The role of the NGOs was discussed at meeting in Midrand yesterday between government officials and poverty alleviation organisations such as Operation Hunger and World Vision

Another issue discussed was the possibility of applying a zero-rating on foodtsuffs when VAT is introduced later this year

While government initially insisted that there would be no exemptions, there are now signs that it might be prepared to allow zero ratings on some food items

The senior IMF delegation which is in SA to advise government on the implemenation of VAT, also attended yesterday's meeting

One participant said the IMF seemed to be stressing that it was not desirable to set up a new bureaucracy to provide aid to the poor

"Government doesn't have the infrastructure, so NGOs will have to be used," another said

Government apparently does not have any qualms about using political organisations The test will be whether the NGO can service the poor, and whether it is financially accountable

Another criterion will be whether the NGO runs programmes which can provide upliftment. The idea is not simply to provide handouts if this can be avoided.

The meeting follows the completion on Cabinet instruction of an urgent investigation into poverty in SA An interim report has been handed to the Cabinet

Sources say that government is likely to vote at least R600m this Budget for two million critically poor people These are families which do not have a single person with access to an income

Government was represented by Finance deputy director-general Estian Calitz and the IMF by senior staffer Ved Ghandi.

Calitz heads the committee instructed to investigate a poverty alleviation or "life net" strategy for SA.

World Bank

The committee summarised the extent of poverty in SA by drawing on major reports, including those by Francis Wilson (the second Carnegie report), the Bureau for Market Research, the Development Bank and the Food and Nutrition Strategy for Southern Africa

In formulating its approach to poverty, the committee is understood to have drawn heavily on World Bank research, particularly the World Development Report published last year.

Sapa reports that Finance spokesman Fred Browne confirmed the meeting He said the IMF had been invited to submit recommendations on the new tax system.

"We have invited the IMF to study our proposals and assist us in devising a system which will not affect the poor," Browne said.

Estimates are that besides the estimated two million who have no fixed income, about 40% of the population earn less than internationally accepted minimum wage levels.

● Comment: Page 10

156

IMF under fire from African central bankers

Star 5/3/91

By Rowena Whelan

GABORONE — The International Monetary Fund (IMF) faced criticism in Africa last week for strapping a short-term financial straight-jacket on struggling sub-Saharan economies

African central bankers told IMF Managing Director Michel Camdessus, who was on a whistle-stop tour of southern Africa, that they needed long-term funding and policies to halt the region's slide into ever deeper poverty

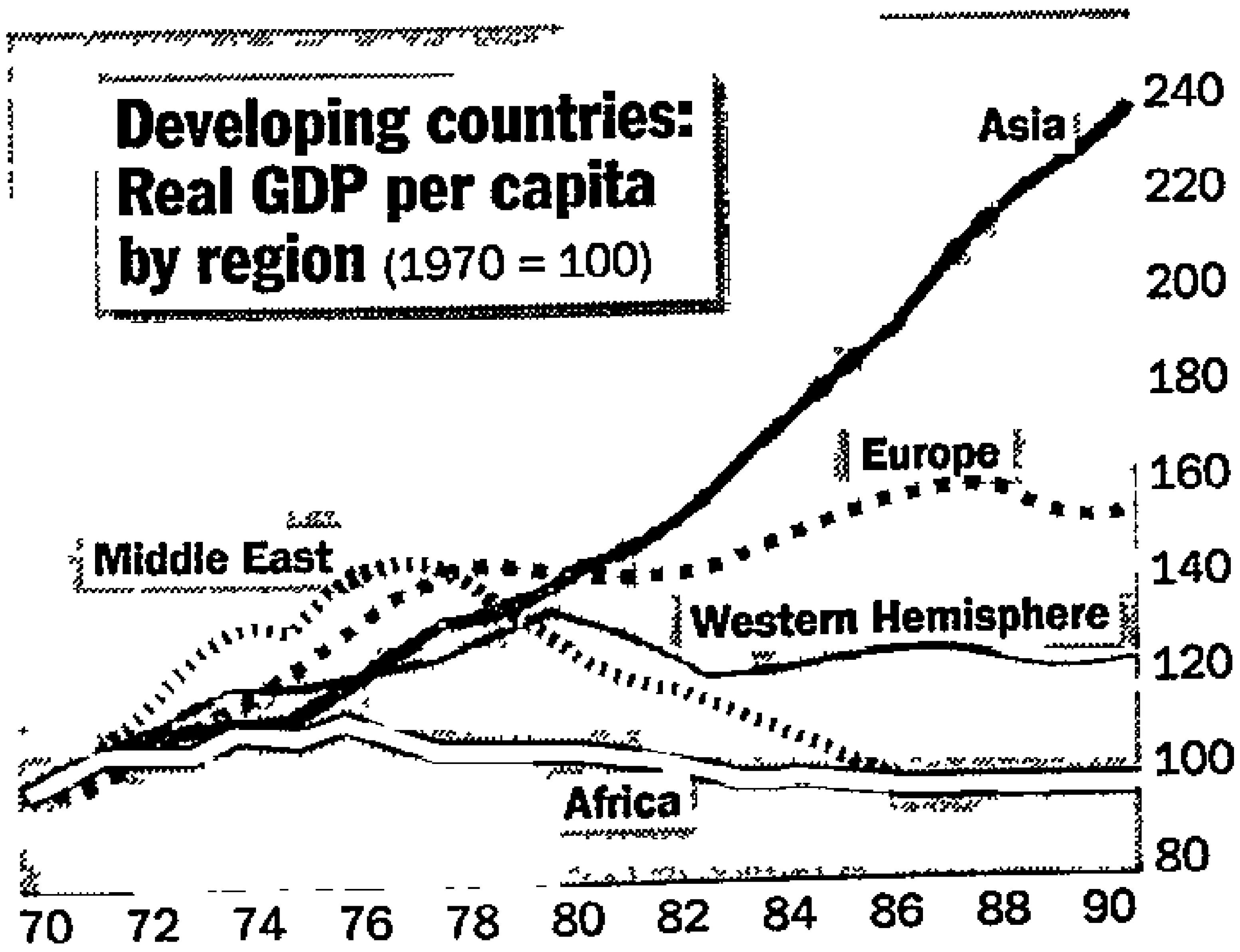
MrCamdessus said IMF-prescribed market reforms were raising living standards, although more slowly than expected

"These reforms are producing results — positive real growth," he said at a joint meeting of the IMF and Association of African Central Banks (AACB) in Gaberone, Botswana

The conference was only the second occasion on which top IMF officials had come from Washington for wide-ranging discussions on economic policy with African central bankers

Delegates said the meeting was far more cordial than the first such conference in 1986, reflecting the spread of a pragmatic acceptance — among financial leaders at least — of the need for fundamental reforms in weak, inefficient economies

More than half of the countries south of the Sahara are following IMF-backed structural adjustment programmes Others, such as Ethiopia, are seeking the fund's stamp of approval for market reform efforts — an endorsement essential to unlock the lids of Western coffers



But the IMF assertion that structural adjustment was already raising living standards drew criticism from some African bankers and independent economists They ascribed a rise in per capita income in a few countries to other factors

Central bankers, while pledging to continue reforms, aired various — if often familiar — complaints about the Fund's role in Africa

Gilman Rutihinda, governor of the bank of Tanzania, said IMF demands for currency devaluation were a misreading of the real causes behind trade problems, which he attributed to transport and domestic credit shortages, not an overvalued shilling.

In prepared remarks released to Reuters, Mr Rutihinda also criticised the operations of the Fund's soft-loan facility — the enhanced structural adjustment facility (ESAF) — which was designed to help low-income countries pay for long-term reforms.

"The design of the ESAF appears to have lost its meaning because the IMF officials are always expecting quick results," he said.

The IMF requires a country to follow strict economic guidelines if it wants a soft loan, and even some western donor governments complain that disbursements of ESAF funds are disappointingly low

The Fund says it is working to get the sequence of reforms right

If complaints at the meeting were sometimes familiar, so too were most of the solutions being offered to cure Africa's economic ills

IMF director of exchange and trade relations, John Boorman, said core elements of future programmes should include emphasis on market forces, price adjustment and opening trade to the outside world

With foreign financing forecast to be scarcer in the 1990s than the 1980s, Africans were told to cut waste, corruption and excessive military spending Investment must be made far more productive and idle capacity revived rather than new industrial projects started, economists said

Despite stress on the need for more spending on agriculture, some delegates said the meeting failed to consider the most critical problem facing many African economies

"The largest issue surely is whether Africa can feed itself," said Robert Berg, president of the New York-based International Development Conference

"The main development challenge isn't reform of the external sector, pricing and the public sector but survival "— Sapa-Reuter

Many in SA 'pitifully poor'

B Day 21/3/91

Political Staff

CAPE TOWN — Gloomy but frank acknowledgement of the extreme levels of poverty in SA were made yesterday by Finance Minister Barend du Plessis

In 1989, some 44% or about 16-million people of the population, including the independent homelands, were estimated to be on very low incomes

He said "One of the most daunting socio-economic issues is the great gap in development and income between people and communities

"SA has one of the most unequal distributions of income in the world, but still more disturbing are the millions of South Africans who have to make do with pitifully low incomes.

"And there are similar disparities in the ownership of assets," Du Plessis said

Government's goal was a new SA with justice for all and political, social and economic equality.

"It is the considered judgment of this government that the means to securing justice for all lies in the process of purposeful even-handed treatment, alike in the political, the social and the economic fields"

The theme of the 1991/92 budget was therefore "equity through growth and stability", Du Plessis said

The Budget Review, prepared by the Finance Department, stated that the extent of poverty in SA was "still extremely great.

"Poverty in SA has increased over the past decade and a half

"This is reflected in the fact that the real gross domestic product (GDP) per capita has fallen since 1981 at an average annual rate of 1,5%"

Unemployment in SA had shown an upward trend since the mid-1970s

The decline in the labour absorption capacity of the economy had assumed daunting dimensions.

In 1965-1970, 73,6% of the increase in the labour force was absorbed by the formal sector, but this fell to 62,7% between 1970 and 1975, 35,4% between 1975 and 1980, 21,9% between 1980 and 1985, and "an exceptionally low level of 12,5%" between 1985 and 1990

"The implication is that only about 125 out of every 1 000 new entrants to the labour market in 1985 to 1989 were accommodated as fulltime employees in the formal sector

"Unemployment, therefore, has largely become entrenched in the South African economy as a structural problem."

The review said evidence submitted to Vatcom showed some children younger than 12, the aged, social dependents, and certain categories of unemployed needed urgent direct aid.

He said some of the resources released by the SADF had to be rerouted to the maintenance of law and order and a total of R4,63bn was now provided — an increase of 53%

Rising crime, the need for certain security steps and the mass action campaign required a larger visible police presence with the emphasis changing from "reactive" to "pro-active", he said

The Minister said in the light of the high priority given to efficient policing and the need for emergency police stations, R20m of the R950m which had been set aside for urgent capital requirements was earmarked for this purpose.

MPs' salaries to rise by 27%

B Day 21/3/91

CAPE TOWN — Parliament's 308 MPs, who last year earned salaries worth R26,2m, will get a pay rise of 27,4% worth R5,6m.

The overall cost of parliamentary salaries, including pensions paid to MPs, administrators and members of the President's Council, will rise by 22,7% to R104,4m

The latest pay increases for parliamentarians follow a double pay rise last year which increased MPs' salaries by 25% and Cabinet Ministers' by 17%

While no details of MPs increase were provided Ministers are to get R187 000 a year, including a reimbursive allowance of R40 278, and deputy ministers R135 000 a year, including a reimbursive allowance of R30 930

Education's slice up 27% to R16bn

B Day 21/3/91

Political Staff

CAPE TOWN — Government has earmarked R16,1bn for education in the next financial year, with R6,833bn going to blacks — a 27% increase on last year.

The Labour Party's boycott action also bore fruit as they will receive a one-off R90m and the House of Delegates R75m to address pressing needs

White education spending will total R5,950bn — an increase of 6% while the budget for coloureds totals R2,303bn (13,9%), and for Indians R977,3m (18,6%).

Finance Minister Barend du Plessis said that for years education had been the largest single component in the Budget, and in the 1991/92 tax year it would account for 19,2% This was before accounting for the contingency reserves and transfers to the TBVC states

He said R1bn had been earmarked for capital projects last year in a special fund, of which R750m had been set aside for black educational capital projects. Of this R188m had been spent and the balance would be used this year

It was proposed an extra R269m be added to the rest of the R1bn fund — with R212m for capex in black education

Special steps would be taken to ensure buildings would be erected with the support and co-operation of local communities, and if possible they would involve work-creation projects.

It was generally accepted that the massive backlogs in education demanded great cost effectiveness, with the emphasis on skills-orientated education, he added.

A direct contribution by parents and local communities was likely to play a larger role in future educational financing

Deficit above IMF recommendation

156 ANDREW GILL

B Day 21/3/91

ANNOUNCING a generally expansionary Budget yesterday, Finance Minister Barend du Plessis forecast a deficit before borrowing above expected levels and the IMF's suggested ceiling. At 3,4% of GDP, the deficit exceeds the suggested IMF ceiling of 3% and 1990's 2,7%.

Du Plessis has drawn on a R950m bonanza "emerging from the diminishing need for strategic stockpiling" for financing the deficit and a R206m input from the 1990/91 surplus after borrowing.

The remainder, R8,962bn, constitutes 3% of GDP, "unfortunately above the level of capital spending", estimated at 1,8% of GDP. Moreover, loan redemptions will be about R5,4bn, bringing the net financing requirement to R14,4bn.

The plan is to finance it chiefly from domestic stock sales to the amount of about R14bn, including investment by the Public Investment Commissioner (PIC).

"In the light of the relatively modest loan programmes of other public sector institutions, the state's financing requirement this year should reinforce the slightly downward trend that long-term interest rates have begun to display."

The R10,12bn requirement, said Du Plessis, was the result of "all the fiscal commitments and tax reform in particularly tight economic circumstances".

The tax concessions will result in a loss for government of R1,77bn in fiscal 1991/92, while supplementary spending proposals account for another R2,15bn of the R85bn budget.

NEWS FOCUS

IMF gurus left govt holding VAT baby

B Day 26/3/91. (156)

Critics call them the two-week tourists. KEVIN DAVIE reports on how the IMF came for a couple of weeks, changed government's plans for the Budget, and left.

IMF chief Michel Camdessus' one-day visit five weeks ago was the highest-profile contact SA has had with the IMF for many years.

But Camdessus' whistle-stop stop-over obscured the arrival of a second IMF team at the same time, a team which had immediate effect on SA It significantly altered Finance Minister Barend du Plessis' Budget

On the face of it, the three-man IMF team led by Ved Ghandi would have little to do with the Budget It was here by invitation from government to make final recommendations on VAT.

The team's credentials were not in question It included experts recognised worldwide as authorities on VAT. They gave no interviews but impressed all who came into contact with them

SA had already decided some years ago, when the idea of switching to VAT was first mooted, to follow IMF thinking There were consultations, and IMF VAT models were closely followed, although made relevant to SA

The timing of the IMF visit was crucial VAT was scheduled to begin this October and so would need to be finalised in time for Du Plessis to plan his Budget accordingly The IMF handed its recommendations to Du Plessis with two weeks to spare.

There were now two reports on VAT. The government-appointed Vatcom released its findings four weeks ago Vatcom hinted at a 10% VAT and recommended the rate be kept as low as possible to ensure public confidence.

But the Vatcom report was curiously devoid of calculations and projections

How much would VAT bring to the fiscus relative to GST? How much would be collected at 10%? How much at 13%? How much lower would the rate need to be set to offset VAT on foods which were exempted by GST?

IMF expertise, we were told, would be used to do the calculations Government would make no final decisions until it had received the IMF report

A separate government study was meanwhile tackling a related issue To be pure the new tax should have as few exclusions as possible So most foods would be taxed even though government figures showed that more than 40% of the population lived below the breadline An effective poverty alleviation strategy would be needed to ensure people balancing on the breadline did not starve, that VAT did not precipitate food riots

Government had also been handed an interim report of a committee of inquiry into social pensions which recommended parity at an additional annual cost of about R3bn If help was to be given to the poor, some argued, this was the way to do it

Pensions are often the only income of the very poor and an efficient network already exists for payment

Government was bullish in the weeks ahead of the Budget on its intended social spending programme

Senior ministry sources said 42% of total spending (R35,7bn) would be allocated to education, housing, health, welfare, job creation and poverty alleviation

As it was, only R32,5n (38% of the total) was budgeted last week for social spending An amount of R3,75bn, roughly equivalent to this shortfall, was given instead by Du Plessis to manufacturers as tax credits on machinery and goods used in production (capital and intermediate goods)

Surprised

A key advantage of VAT over GST is that it taxes only once The cost to the consumer should be lower and the economy more efficient without the distortions of taxing what has already been taxed The problem for government was that allowing these tax credits on inputs would result in an annual loss of R7,5bn or 37% of revenue raised by GST

Vatcom recommended full credit should be given on all business inputs, but that these credits should be phased in to be able to keep VAT as low as possible As on the setting of the rate, the IMF was to offer advice on this R7,5bn question

On Budget day Du Plessis surprised many by announcing full tax credit on inputs from day one, by setting VAT at 12% and by budgeting for the new tax to raise R1bn less than GST

If VAT was more efficient, spread the tax base, included foods in the net and would catch 60% of tax lost to evasion, why was it going to bring in R1bn less? Government estimates show that in a full year VAT will raise R2,5bn less than GST (the same amount, coincidentally, which the fiscus has been losing because GST exempts many foods)

The IMF team calculated that VAT would need to be 13,3% to raise the same revenue as GST. They argued strongly for full input credits from day one, calculating that if the benefits of the hundreds of millions of rands which would flow monthly to manufacturers were passed on to consumers, that prices would drop by up to 8%

Each percentage point increase in the VAT rate would bring in an additional R1,5bn in a full tax year, meaning that a 12% VAT would bring an additional R3bn compared with a 10% VAT Printed estimates in the Budget Review showed GST would have netted R20,35bn this year compared with R18,20bn last year.

But VAT will only earn R19,44bn, a 6,8% increase on last year which will not even account for inflation

The loss is significant as it obscures the fact that VAT will net more than R1bn this year by taxing foods — and a guesstimated additional R1bn by taxing services

The options which faced Du Plessis can be simply put He could spend the R3,75bn in the second half of this year or phase the input tax credits in over a period of years The IMF argued strongly for the first option

Du Plessis said in his Budget speech that the IMF had given special attention to the effect VAT would have on low income groups He said government believed relief action "should be supplementary to the improvement of income through economic growth and job creation"

The R3,75bn on input credits significantly reduced revenue available for social spending. A look at allocations to government departments showed Education and Training (black education) got 13,8%, more or less equivalent to the rate of inflation while the number of pupils increases by 4% a year; Planning, Provincial Affairs and Housing got 2,7%, Agriculture -16%, Development Aid 14,9%, Manpower -8,4%, and National Health and Population Development -12,1%.

Packed

The IMF team stayed their couple of weeks, packed their bags and left. The Soviet Union is understood to be a possible next destination.

But back in SA people are asking whether the IMF plan will work, whether the R3,75bn which will be given to manufacturers in the second half of this financial year will be passed on through cheaper prices Only time will tell

Violence seen as no bar to resumption of IMF loans

156

Star 19/4/91

By Sven Lunsche

The escalating violence in South Africa will not prevent the International Monetary Fund (IMF) from extending credit facilities to this country, Dr Frans le Roux, SA's permanent representative at the agency said yesterday.

He stressed that new loans by the IMF still depended mainly on the scrapping of the Comprehensive Anti-Apartheid Act (CAAA) by US legislators.

Local economists have expressed fears that the continued violence in the townships could deter the IMF executive from approving new lending facilities to SA, even if all remaining apartheid laws were lifted.

Approval by the IMF is regarded as essential for the re-opening of credit lines to overseas banks, particularly in the US.

But Dr le Roux said in an interview that the IMF does not discriminate between member countries and the escalating violence would not have a major impact on an IMF decision

Stumbling block

He pointed out that legislation barring the US representative at the IMF from approving new loans to SA unless the CAAA was lifted remained the major stumbling block.

The US has about 19 percent of the voting rights on the IMF's executive committee and on its own could not prevent new loans

"But the executive committee is not likely to act without the approval of the US as this could affect the US Congress decision to approve a 50 percent increase in its quota to the IMF," Dr le Roux said.

"We are therefore not likely to see a renewal of IMF loans before September, when the quota increase is tabled in Congress."

On a more positive note he said that the majority of IMF executive directors, including those from Africa, have welcomed recent changes in SA and were looking forward to the country's return to the international fold.

"There is a genuine feeling that new loans are no longer a question of whether, but when they can be extended."

IMF STATISTICS FM 26/4/91

SLOWING DOWN 156

Industrial output of developed countries rose for the eighth consecutive year in 1990, reaching a level 31,8% higher than the recession year of 1982, according to IMF statistics issued this month But a declining trend can be seen in that the 1,8% rise was only half 1989's 3,6%

Highest growth was achieved by Germany (excluding the new federal states) with 5,4% and Japan 5% The US followed with 0,9% Italy recorded no growth and the UK saw a decline of 0,9%

FM 26/4/91 156

Latest available statistics on inflation showed a deceleration in developing countries in the third quarter. Prices were 85% higher than in the third quarter of 1989 compared with a 123% increase, year-on-year, in the second quarter

Inflation in Europe and the Western Hemisphere continued to be measured in three digits in the third quarter — Europe 311,1% and the Western Hemisphere 517%

In those countries where inflation is most threatening, a deceleration took place Inflation slowed in the third quarter in

- Argentina 1 827% (compared with 8 720% in the second quarter);
- Brazil 3 827% (5 953%),
- Poland 726% (1 076%), and
- Yugoslavia 748% (1 791%) ■

THE MARGINALISATION OF A CONTINENT FM 26/4/91 ·

ESCAPING THE TENDER TRAP

156

AFRICAN ECONOMIC REGENERATION MUST COME FROM WITHIN

The curious thing about Western attitudes towards the poor and starving in the Soviet Union and Africa, despite the similarity of their plight, is that the former are taken very seriously while the Africans have, in their own words, been "marginalised" Both, of course, have been the victims of failed government and varying degrees of totalitarianism. The difference is that the Soviets appear to have realised that their deprivations have been self-inflicted through collectivist planning that rewards the indolent in greater proportion than it does the enterprising The reaction has been to demand both instant capitalism and more regional political autonomy

Africa, for its part, appears to cling stubbornly to the only political economy it knows, based on liberal myth, bureaucratic injunction and naked dictatorship In short, that amounts to Africa blaming everyone else — but especially the World Bank and IMF — for not providing it with the means of perpetuating its own indigence

Or certainly one could be forgiven that view after reading the lengthy statement produced after a four-day workshop in January in Addis Ababa It was aimed at examining what is euphemistically called Africa's development crisis More than 40 specialists participated, including those from leading African trade unions, the UN Economic Commission for Africa and the Organisation of African Unity

The *FM* is indebted to the Institute of African Alternatives, a London-based study group which now has a Johannesburg office, for a copy of that statement The institute, which we suspect would itself endorse the statement's sentiments, nevertheless believes that Africa's economic problems are so serious that the broadest possible examination

 156 FM 26/4/91 156

and discussion is desirable. And it is difficult to gainsay that proposition.

Simply put, the workshop was critical of the conditions and nature of World Bank and IMF aid to African countries It sees their emphasis on the allocation of resources through free markets and competitive pricing as attempts to encourage the informal sector and to reduce government's role in these economies. Workshop delegates saw that as an onslaught on their own national sovereignty.

It also condemns the bank's initiatives — or structural adjustment programmes — for not adequately taking into account the need for education, health and other social benefits It claims the bank has admitted to its own failure in Africa

It criticises the denial of agricultural support policies in Africa, despite their widespread use in industrialised countries, and what it calls the excessive reliance on peasant production without significant efforts to encourage co-operatives or resolve the conflict of the production of food for local consumption with the need for export crops

There is both implied and explicit criticism of the investment role of transnational corporations, the global perspective of which is believed to clash with the need for domestic job preservation and the under-utilisation of capacity

And, of course, there is reflected too the deep resentment at the refusal of the bank or IMF to countenance the overvaluation of domestic currencies, which are patently to the benefit of middle-class bureaucrats and which spawn all manner of controls on trade and exchange which stifle enterprise

Singled out for particular scorn is the Uruguay Round of the General Agreement on Tariffs & Trade (Gatt) for both "marginalising" Africa and attempting to deny it the trade barriers that the workshop believes necessary to protect industries and earnings Other accusations include the denial of African countries' right to regulate their own financial services industries

The workshop takes the popular African view that the bank's conditional assistance and the inequitable Gatt liberalisations amount to a Western conspiracy to impoverish and recolonise Africa.

Finally, the Fraser Report on African Commodity Problems is criticised for suggesting that Africa has been the instrument of its own inability to profit adequately from the production of raw materials, citing the protectionism of the industrialised West and synthetic substitution for its failure. It is too much inclined for the critics in Addis Ababa to hark back to the golden days of the Sixties by corroborating the bank's own analysis of what is wrong with Africa

There are a few other arguments used by Africa's elite for the predicament in which they now find themselves These are not explicitly stated, but they are the hardy annuals of the World Bank and IMF annual meetings The first is that the former colonial powers, by exploiting Africa's natural resources to their own ends, destroyed the indigenous African economic and social system The second is that the West conspired after the decolonisation of the Sixties and Seventies to manipulate commodity prices to its advantage and against those of African producer countries.

Why the West should bother to conspire against the countries it is marginalising remains an enigma Voluntary decolonisation doesn't fit well with such a rich source of raw materials Certainly no one who has worked in world commodity markets would doubt the difficulties associated with effective manipulation. With the exception of De Beers' marketing of diamonds, no other buffer stock arrangement or strategic management scheme has had enduring success

It is important to say that the bank and IMF force their policies on nobody. No country in Africa has to use their facilities, but those that do need to fulfil lending conditions And increasingly the bank is insisting that one of those conditions is a return to democratic government and an improvement in the application of human rights Very few African countries score well on these counts

Whether bank policies have been a success in Africa is open to argument. Certainly the bank appears to have evidence of substantial and durable progress in other parts of the Third World, in particular South America It certainly acknowledges that African countries have indulged in such extreme and intransigent economic and social degradation that too many of its small national economies have become basket cases

The extremity of their deprivation may mean that what the bank prescibes will take longer than expected to bear fruit Often, too, progress is slow as African rulers have to be cajoled into the application of policies that are not in the interests of the socialist bureaucrats that "liberation" spawned in Africa But when it comes to the interests of ordinary people — especially farmers — the bank has the most to offer

But even if the bank's policies have failed to revive some African economies, to switch back to what brought about this awful situation in the first place — not only in Africa but in the Soviet Union and China — is hardly likely to make sense.

Africa's problems with Gatt are substantial — not so much because it erodes sovereignty but because it is manipulated by European countries to their own (much mistaken) protectionist advantage The trade barriers that the Europeans enjoy — mostly masked in the rhetoric of free enterprise — in the fields of agriculture and textiles (and the spurious use of anti-dumping regulations) should be used by African countries as a diplomatic lever to increase their own freedoms and not the reverse, which is all too often the case

Protection stultifies growth by limiting competition Likewise controls over trade and exchange They are not a challenge to national sovereignty, simply an attempt to prevent the economic expression of domestic political policies that are likely to scare investors They seldom work for long.

Perhaps there is more to come. But apart from the references to Africa's own long-term plan, the Addis document amounts to no more than a plea for more Western aid to be used as unproductively as it has been in the past The document is notable chiefly for the poverty of its economic ideas It comes dangerously close to being an argument by Africans for their own marginalisation For it is a litany of complaint rather than a compendium of constructive initiative and a capitulation over free trade to European sleight of hand

There are sufficient examples in Africa to suggest that where elements of freedom of trade and exchange are allowed, rising prosperity can be sustained Perhaps the problem is that too many African governments — including the government of SA — have for so long denied political freedoms that they too easily and wrongly equate economic ones with fears of a loss of their own sovereignty

This is reflected in the cry for more development banks, which in turn is a thinly veiled attempt to maintain control over and continue misspending development aid. Regional development banks have nowhere proven to be instruments capable of guaranteed prosperity They are too easily the means of subjecting bank initiatives to the interference of meddling politicians and their servants

What Africa needs above all else is African resolution and resourcefulness. It must seek its own future from its own substantial intellectual and material resources, rather than allow itself to be enervated by morbid reflections on its past or the duplicity of European politicians And that, in turn, requires creative and self-confident leadership and the political freedom in which it is able to flourish

In sharp contrast the Soviet Union has begun to look to the future Until Africa can bring itself to do the same, it will remain at best on the margin of Western abundance ■

Paper backs trade idea

Sowetan 26/4/91

HARARE - Backing for a regional trading bloc in Southern Africa came today from Zimbabwe's main newspaper, *The Herald*

Sowetan Africa News Service

It endorsed the support given by top businessmen who attended the Institute of Directors convention here this week on the challenges facing Southern Africa in the post-apartheid era.

The paper said such a bloc, soundly based on mutual trust, would create a powerful economic unit which the rest of the world, normally dismissive of the Third World, would have to notice.

It said South Africa was of extreme importance to the region but with the world in upheaval, the climate for investment, which now looked promising as South Africa moves towards change, could very quickly change for the worse.

The *Herald* said it was not certain that a democratic South Africa would in the end see any advantage in a regional grouping.

Zimbabwe was in a position to contribute and benefit from any trading pact embracing South Africa.

Criminals paraded

BEIJING - Authorities in Lhasa paraded 44 criminals before a public rally as part of a crackdown on crime before the 40th anniversary of Chinese communist rule over Tibet, a local newspaper said.

"Our public security officers will work tirelessly to ensure the anniversary celebrations go smoothly in a good social environment," the *Tibet Daily* from April 15, seen in Beijing yesterday, quoted a police official as saying. - *Sapa-Reuter.*

SA critic urges IMF squeeze

Sowetan 26/4/91. 156

Sowetan Foreign Service

NEW YORK - *The New York Times*, one of the keenest - and often most intemperate - critics of South Africa in the United States has called for a new shifting of the goalposts when US sanctions are lifted.

In an editorial yesterday the newspaper urged Washington policymakers to preserve US leverage "even as sanctions phase out" by continuing to insist that the International Monetary Fund deny loans to South Africa.

Recognising that by next month South Africa will "probably" have complied with the minimum conditions for lifting sanctions as set out in the anti-apartheid legislation adopted by Congress in 1986, the paper asked.

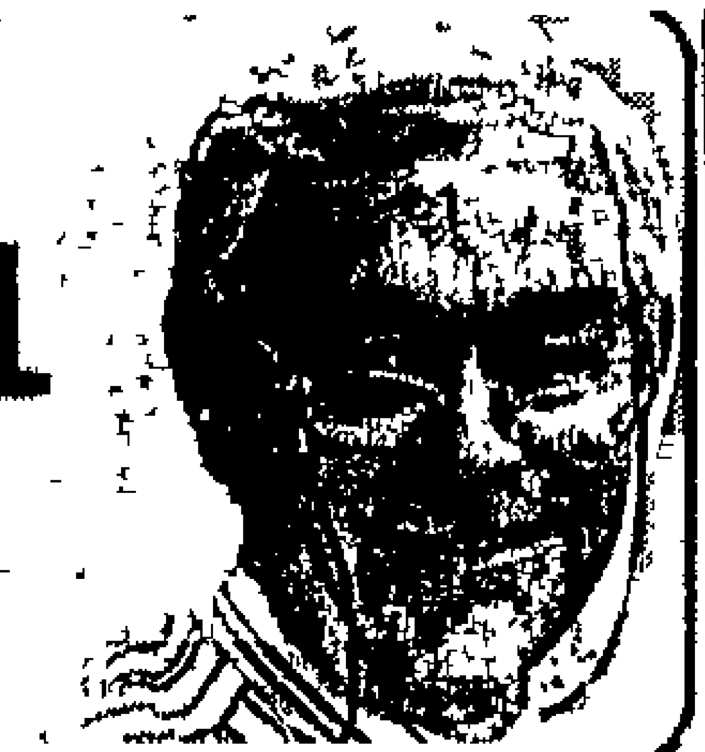
"What then ? Should Americans declare victory and embrace Pretoria as a penitent prodigal?"

Not quite, said the paper, answering its own question.

Eliminating repressive racial laws is only part of the job. Still ahead is the task of writing a new constitution that respects democratic rights of all South Africans.

The paper added ."This does not mean that Washington should defer lifting sanctions when stipulated conditions have been met. But it should not abandon other forms of leverage until the job is done."

JOHN CAVILL in LONDON



Germany joins the baddies

S Times (Bus/T) 28/4/91

156

FINANCE ministers and central bank governors of the world's top industrial countries, the Group of Seven (G-7), will meet in Washington today to again try to reconcile their differences over economic and monetary policy.

The gathering is causing some nervousness in financial markets, even though the dollar's gravity-defying flight was checked this week by figures suggesting that optimism about the end of the recession was premature. Consumer durable orders dropped by 8,2% in March — the steepest decline since last November.

The dollar braked after streaking up from recent lows in spite of the gap between US short-term interest rates and those in Europe and Japan.

If the dollar can stabilise it will help assuage the near-paranoia about inflationary pressures in Germany, whose monetary policy is the fulcrum of the whole of western Europe, and Japan. In turn that should sustain the momentum of US exports which have risen 76% in little over five years.

In a whole range of products, America can now produce more cheaply than its industrialised rivals. Estimates by Federal Reserve economists in Washington put US manufacturing unit costs as much as 40% below those in Germany and 20% under Japanese levels — reflecting an average rise in productivity (measured by output an hour) of nearly 4% a year since the mid-1980s and, of course, the depreciation of the dollar.

Some expect exports to remain the most dynamic sector of US economic activity for the next five years.

Hence it has made sense for US Treasury Secretary Nicholas Brady to be beating the drum for more expansionary policies, which means cheaper money, by the other G7 members — Japan, Germany, France, Italy, Britain and Canada

In informal talks with them in London, Mr Brady argued that they were being overcautious about inflation and risking a credit crunch with an ensuing spread of recession or, at least, low rates of growth

Mr Brady also worries about the possible waste of opportunity presented by the end of the cold war and the unravelling of socialist economics in Central and Eastern Europe

"We've had the most significant change in world history in all our lifetimes The idea that we are not going to approach that turn in world history with a positive, optimistic strategy does not occur to me as right," he says

That is not the way it is seen by the tougher G7 nations, notably Germany and Japan, or even Britain.

Bundesbank president Karl Otto Poehl was adamant this week in an interview with the Financial Times: "A cut in interest rates in Germany is not on the agenda."

Mr Poehl said that while Germany had to meet the collosal financial demands of bringing the former communist area of the country up to scratch there was little option but to keep a tight policy

He disagreed with claims that because of the rules of the European Monetary System this would hobble the other economies whose currency exchange rates were linked to the mark.

The "relative weakness" of the mark, Mr Poehl said, was allowing them to ease money costs without waiting for Germany to do so

The hard men of the G7 will be reinforced by an International Monetary Fund (IMF) assessment of the outlook for the world's economy. The IMF does not share Mr Brady's anxieties, looking for a bounce in output growth from this year's depressed 1,2% to 2,9% in 1992 — even though Germany will be the odd man out Against 4,5% in 1990, German gross domestic product will rise by 2,8% this year and by only 1,9% in 1992.

Like the IMF, they will point out that demand for money has remained high in spite of the recession which is why long-term (bond) rates in the US have stuck in a range of 8% to 9% in the face of the dramatic four-point cut in short-term rates to under 6%.

Market forces are unlikely to allow rates to fall as demands of the credit and investment-hungry economies east of the Elbe are compounded by the billions needed to rebuild Kuwait and Iraq

The IMF's solution — along with the Organisation for Economic Co-operation and Development — is that governments must decrease their demands on savings by cutting budget deficits and freeing money for investment and growth. This year the long-standing fiscal scapegoats of the US and Italy are joined by Germany.

Doubtless today's meeting will produce the customary soothing communique on the need for stable exchange rates, sound policies, co-operation and so on and so forth. But unless the US has a change of heart the language is likely to conceal more than it reveals about agreement to disagree.

IMF could prevent BoP crisis

Stals unveils his plan to scrap finrand

B|Day 29/4/91

156

GRETA STEYN

THE IMF could lend SA a maximum of R15bn in extra foreign exchange if it ran into balance of payments (BoP) problems after lifting foreign exchange controls and scrapping the financial rand, Reserve Bank Governor Chris Stals said yesterday

SA could consider a gradual programme to get rid of the finrand and other foreign exchange controls if normal relations with the IMF were restored soon after the current session of Parliament, he said

He was commenting on President F W de Klerk's message to British industrialists that a revision of exchange control was likely as soon as the US lifted sanctions and IMF relations were normalised

"It is unlikely the IMF will lend the Bank foreign exchange to intervene in the markets to wipe out the differential between the finrand and the commercial rand But the Bank will be able to intervene once it knows that it can draw on the IMF if it runs into difficulties during the transition period," he said

Getting rid of the finrand would be a slow process of which the first phase would be a narrowing of the discount between the two currencies as a result of foreign investor interest in SA The Bank would not contemplate intervening in the market before that had become apparent

The differential has already narrowed to 16%, the lowest level since the dual currency system was re-introduced in 1985 While this is partly the result of foreign demand, it is also a reflection of the commercial rand's recent dramatic weakening against the US dollar

A second phase would be active intervention by the Bank to narrow the differential to a point where the finrand could be abolished

As the Bank intervened and the gap narrowed, foreign creditors with debt inside the standstill net would increasingly choose to exit from the net by converting debt to financial rands. This would have the effect of increasing the supply of financial rands while reducing the amount of debt caught in the net (currently $6bn-$7bn) The increased supply of finrands would work against the narrowing of the differential — hence the process would be lengthy.

Stals said one major advantage of the abolition of the dual exchange rate system would be to render obsolete the list of rules and regulations governing investment in SA and take away the opportunities for illegal "roundtripping" between the two currencies

Recent foreign investment in SA via the finrand included a European company's millions of rands in equity investment in supplying catalysts to Mossgas and R200m in five-year export credits raised by the IDC in the last nine months, Industrial Development Corporation (IDC) senior GM Malcolm MacDonald said.

He was explaining De Klerk's statement last week that foreign risk capital was flowing into SA. MacDonald said Mossgas was the most recent example of a "steady" flow of foreign equity finance via the financial rand

'Bar on IMF loans to SA should stay'

The Argus Foreign Service ARGUS 2/5/91 (156)

WASHINGTON — The United States will continue to oppose International Monetary Fund loans to South Africa as leverage once sanctions under the Comprehensive Anti-Apartheid Act (CAAA) have been removed, says US Assistant-Secretary of State for African Affairs Mr Hank Cohen

He told a joint hearing of two subcommittees of the House of Representatives on Tuesday that President Bush had emphasised that the CAAA's conditions were clear-cut and not open to re-interpretation

"We intend to follow the law if the conditions have been met"

But he said that should the CAAA sanctions end, others — such as the arms embargo, exports to the military and the police, and the Gramm Amendment governing US votes at the IMF — would remain in place.

"These measures will give us continued leverage as the negotiation process develops"

Earlier Mr Cohen said South Africa had made "unquestioned progress" towards achieving the objectives of the CAAA.

"I am confident President De Klerk and Mr Nelson Mandela will keep negotiations on track"

British move on sanctions, but...

US to block SA access to IMF aid

B Day 2/5/91.

(156)

WASHINGTON — In order to maintain "leverage" over Pretoria, the US would continue to block SA's access to the IMF even if President George Bush decided to terminate sanctions under the Comprehensive Anti-Apartheid Act (CAAA), assistant Secretary of State for Africa Herman Cohen told Congress on Tuesday.

SIMON BARBER

But at the same time he made the administration's most unambiguous statement yet that CAAA sanctions could be removed within the next several months

And yesterday the British government came out firmly in favour of lifting sanctions in a policy document presented to the House of Commons by Foreign Secretary Douglas Hurd

KIN BENTLEY reports that in its reply to a report on SA by the Commons Foreign Affairs Committee, the British government welcomed the committee's view in favour of lifting all but arms sanctions, and restoring sporting relations.

Hurd also signalled Britain's intention to expand its trade links with SA by giving notice that SA had been designated a "target market" for UK exports, which were already worth more than £1bn a year.

In testimony before the US House Africa sub-committee, Cohen said the Rangel Amendment, which effectively imposes double taxation on US firms in SA, would be among the measures the US could lift soon

The US Treasury Secretary is obliged to terminate the Rangel provision when he receives a written certification from the Secretary of State that the CAAA's conditions have been fully complied with No congressional consent is required

However, the Gramm Amendment, which requires the US to block any SA application for IMF finance, "would remain in place" since it was not covered by the CAAA, said Cohen The same applied to the arms embargo and exports to the SA military and police

Officials indicated that the administration felt keeping the Gramm Amendment was a necessary political tradeoff, especially since the Treasury was asking Congress for funds to replenish the US contribution to the IMF and World Bank

Cohen said the remaining obstacles to lifting the CAAA sanctions, which include bans on new US investment and embargoes on SA iron, steel, uranium, coal, textile and agricultural products, were the repeal of the Population Registration and Group Areas Acts and the release of political prisoners.

On the latter question, he made it clear the administration was prepared to decide whether requirements had been met on the basis of its own definition of a political prisoner.

That definition, contained in the State Department's annual human rights report, is considerably narrower than that agreed to by the ANC and government and covers only "those imprisoned for essentially political beliefs or non-violent acts of dissent or expression, regardless of the actual crime"

☐ To Page 2

IMF

B Day 2/5/91.

(156)

☐ From Page 1

The CAAA calls for the release of "all persons persecuted for their political beliefs or detained unduly without trial"

An official said the administration would "wait for the dust to settle" before making a final determination

Hurd said yesterday the British government specifically endorsed the view expressed in the Commons report that the time was "fast approaching for the UK to remove all economic sanctions against SA"

Government also accepted the committee's view that all except military sanctions should go upon the enactment of legislation to repeal the Group Areas, Land and Population Registration Acts

In a policy statement, the British government said it supported the committee's view that, because access for SA to the IMF would require the consent of the US government and Congress, Britain should enter into discussions with the US to achieve this

Hurd said there were good prospects for expanding UK trade with southern Africa, particularly exports to SA

SA had been designated a target market in the second edition of the British Overseas Trade Board's forward plan, which was published recently

He said that in consultation with the UK SA Trade Association (UKSATA), which advises the board, the Department of Trade and Industry would be more active in promoting business opportunities in SA

Africans fear aid may be reduced as Eastern Europe absorbs funds

8 10 4 2/5/91

(156)

WASHINGTON — African nations are worried they will be left out in the cold amid the current international focus on Eastern Europe.

Government officials from several African nations participating in high-level financial meetings said in interviews that the international community had tried to allay fears that the reconstruction of Eastern Europe is monopolising most of the funds available for developing nations

But they said they are not convinced their aid will not be severely curtailed.

"They have given us assurances, but in fact, the money is going to Eastern Europe," said Burundi finance minister Gerard Niyibigira.

"We are hopeful not to be forgotten," said Bank of Tanzania governor Gilman Rutihinda, but "very little was said about aid to other countries" during the meeting of the IMF's interim committee, in Washington.

Eastern Europe was clearly the dominant topic at the talks, he added.

None of the officials interviewed seemed optimistic that their aid packages would not shrink sharply.

Various IMF committees have drawn attention to the global scarcity of funds and stressed that developing nations will have to bear primary responsibility for reform programmes

US treasury secretary Nicholas Brady, in comments to the IMF interim committee said "the need to attract capital is at the heart of every country's development challenge. Limited global capital resources ... and budgetary constraints on new foreign assistance within creditor governments, underscore the need for developing countries to encourage new private investment as a source of capital for development and growth".

Welcomed

The Group of Twenty Four (G-24) developing nations said in a statement that because of "shortage of global savings and the increased competition for financial resources", the generally sanguine growth projections for developing countries may be overly optimistic and improvements may not materialise.

The G-24 also welcomed a recent move by creditor nations to forgive about half of Poland's $33bn of foreign official debt and called for the implementation of similar initiatives for heavily indebted developing countries.

But the so-called Trinidad Terms, which spell out major debt forgiveness for the poorest nations were not given very serious consideration in Monday's talks, Rutihinda said.

The only reference to such measures by Brady at the IMF meeting was that "for the poorest countries, the Paris Club is reviewing its current rescheduling options and considering proposals that would extend additional relief .. and should have a substantial impact on the debt profiles of individual countries over time". — AP-DJ.

Financial woes imperil newfound democracy

Sowetan 6/5/91 (156)

WINDHOEK - The wave of democratisation that has swept through Africa in the past two years is imperilled by the worsening economic crisis on the continent.

Mr Salim Lone, the chief of information for the United Nations Africa Recovery Programme, said industrialised nations should take note of changes occurring in Africa and consider providing debt relief and commodity funds to help the continent out of its 12-year economic crisis.

At a Press conference here last week, Lone painted a bleak picture of the prospects for economic recovery, much of it quite beyond Africa's control.

"Africa itself is on the right path," he said. But in the world picture, the continent had been completely marginalised.

The latest figures from the International Monetary Fund, released last week, showed no relief ahead Instead, the scenario for Africa, with its R700 billion debt, was looking progressively worse.

Famine

"The world knows about civil wars in Africa and about famine, but little else As the reality of what Africa itself is doing becomes clearer, Western countries will pay more attention."

This was the only note of hope sounded by Lone He believed African countries had, on the whole, recognised that they had to put their own houses in order, they wanted to "take charge of their own destinies"

The move towards an African Economic Treaty, high on the agenda of the next meeting of the Organisation of African Unity in Nigeria at the end of the month, was a measure of this, said Lone.

FOCUS

Reform doomed without money

Since January last year, more African countries had introduced multi-party political systems than in the last 25 years.

At the same time, the level of political violence in Africa was unprecedented, much of it attributable to the stringent economic structural adjustment programmes that many countries had instituted at the behest of the IMF and the World Bank.

Lone said that in many ways Namibia's independence could not have come at a worse time economically.

Strategic

The end of the Cold War meant that aid to strategic surrogates in Africa had dried up

At the same time the world commodity prices that fell in 1979, have not recovered Africa borrowed heavily following the rise in the oil price in 1979 when banks were only too pleased to be rid of their petrol-linked dollars

Africa earned between 88 and 90 percent of its income from the sale of primary commodities

When those prices did not recover following the borrowing spree, more borrowing followed and the debt spiral deepened

Last year commodity prices fell a further eight percent, this year another three.

Among the doomsday IMF figures to which Lone referred was that GDP growth in Africa for 1990 would be only two percent and 1,2 in 1991 The population growth was 3,2 percent

"The per capita income in Africa has fallen every year for the past 12 years and it's going to get worse," said Lone.

This could not have come at a worse time coupled with the marginalisation Africa had suffered as the world looked to the Middle East and Eastern Europe.

Lone also said that 40 million African children would die of hunger or treatable diseases in the nineties and that the Aids threat to African children was greater than anywhere else

About 1,5 million women on the continent are HIV positive, compared to 100 000 in the United States

The figure for absolute poverty is expected to double in the decade to 405 million whereas in other crisis countries like those of South East Asia, poverty was being eradicated

The food gap in Africa, 15 million tons at present, would be 200 million tons within 30 years or the equivalent of the entire cereal output of the United States.

Another statistic to put the crisis in perspective was that the total output of the 500 million people of the 46 countries of sub-Saharan Africa was less than the total output of metropolitan New York.

Reforms

Lone said that in the mid-1980s, when African countries agreed to IMF and World Bank recommendations for structural adjustment, the West undertook to provide the assistance necessary to realise those reforms.

Two recent reports to the UN Security Council indicated that while many of these economic reforms had been initiated, the increased resources from the West had not met anywhere near the required levels.

There had been a two percent annual increase in official development assistance to Africa, while the World Bank recommended a four percent increase if there was to be a one percent increase in economic output.

But aid and assistance was not always appropriate and could not be evaluated in isolation The net financial transfer, or available resources, had dropped from R39 billion in 1981 to R7,8 billion in 1989

When Western governments made decisions about where their money was to go, the fact that sub-Saharan Africa accounted for only 1,5 percent of world trade, meant that it was no significant concern

Lone said that at a meeting of seven industrialised nations in Houston last year, Africa was not even mentioned

A recent meeting of the Paris Club gave special debt concessions to Egypt and Poland.

"The countries most stricken, are African But when the crunch comes, the best deals go to Eastern Europe and the Middle East," said Lone

The only hope was that the West would recognise what Africa itself had achieved by way of reform and come up with debt relief - without which that reform was doomed. - *Africa Correspondent*

Sowetan's cartoonist Len Sak is on leave. His work will reappear when he returns.

Political comment in this issue by Aggrey Klaaste and Deon du Plessis Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivan Fynn
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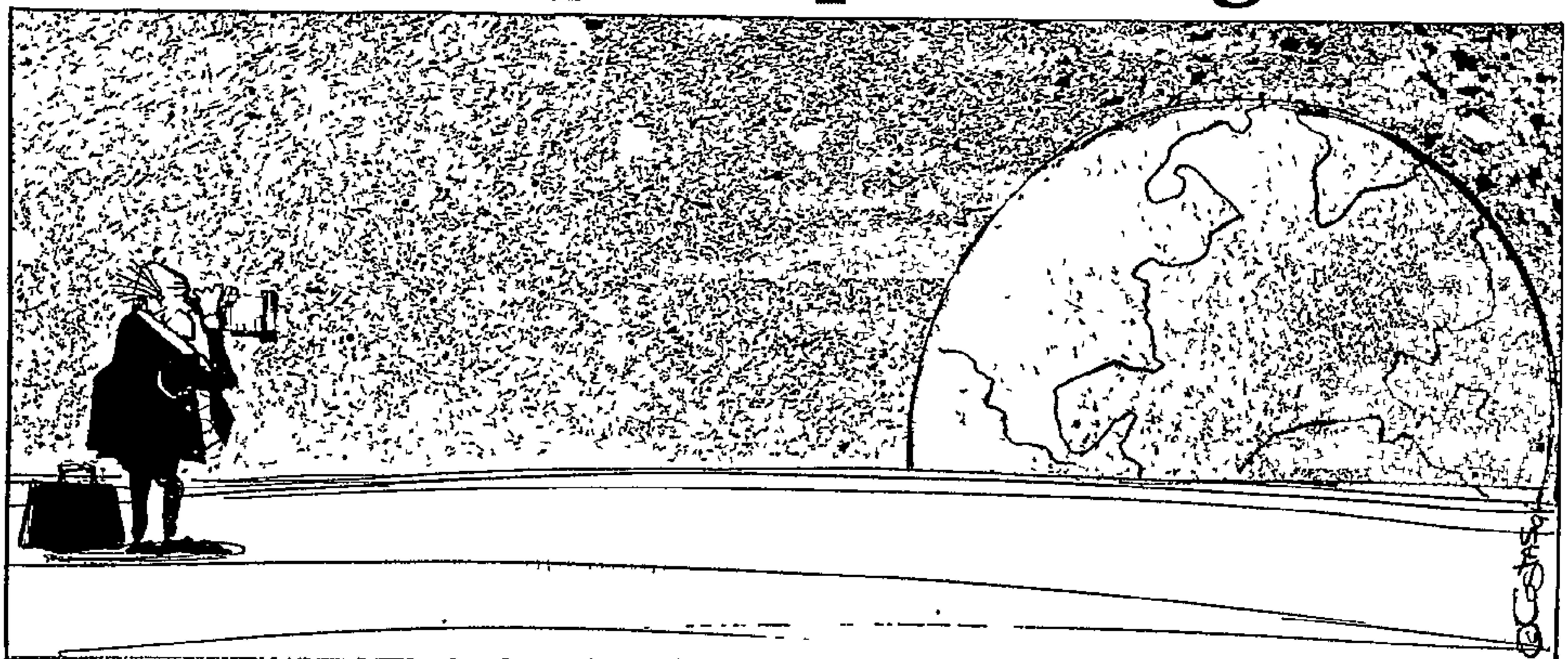
* Write to the Editor at PO Box 6663, Johannesburg 2000 Nom-de-Plumes can be used, but full names and addresses should be supplied or the letter will not be published.

BUSINESS

DEBATE: *Should South Africa retreat from the world economy or should we increase our trade and financial links?*

The path to post-apartheid growth



PATRICK BOND puts the case for delinking from the world economy

PICKING through the recent business press one encounters a fascination with South Africa's reputation among foreign bankers — and also with South Africa's chances, in the coming post-sanctions years, of successfully competing in international manufacturing markets

"US to block SA access to IMF aid," wailed *Business Day* last week, as *The Financial Mail* said "Without an end to township violence, we cannot expect enough new foreign finance or roll-overs to let the debt moratorium expire at the end of the present standstill agreement."

Notwithstanding a much-hyped R135-million deal with European banks following President FW de Klerk's April trip, Reserve Bank Governor Chris Stals can only dream of the R15-billion International Monetary Fund loan he desperately needs to phase out the financial rand Everyone from the African National Congress to George Bush publicly recognises the importance of retaining IMF sanctions to ensure apartheid's demise. 156

Yet simultaneously, the World Bank is in Johannesburg and Pretoria with exploratory missions and talk of "social contracts"

Stals reportedly proposed to the Bank's urban team (led by ex-South African Jeff Racki) that it grant South Africa several billion dollars in new loans for housing The point of this would be to address South Africa's anticipated balance of payments problems, although a huge infusion of foreign debt is a profoundly silly way to finance *locally built* housing (whose foreign input costs are near zero)

There is, clearly, a lot at stake, and so all the mixed signals may seem terribly confusing Is the South African economy on the way out of, or into, another no-win encounter with international finance, one which would make Chase Manhattan's crushing 1985 bearhug look like a friendly peck on the cheek?

Add to this uncertainty the cacophony of voices on the trade front "The best route," says *The Weekly Mail's* Reg Rumney, "would be a labour-intensive export-oriented economy, but this is easier said than done"

Quite The World Bank's secret new report — "South Africa. Economic Policy Options after Apartheid" — blasts South Africa for an "unusually capital-intensive" production system This is from an historic overreliance on imported capital goods rather than the development of appropriate local technology The dye was cast in the 1960s, by way of an overvalued rand, too many multinational corporations producing for rich whites, and excessive protectionism

What's the answer — a classic dose of IMF free-marketry? Consider the consequences. *Finance Week* frets about an end to tariffs in industries such as automobiles "It is doubtful if a single existing assembly plant in South Africa could survive, except perhaps as a branch operation of a foreign parent."

Or, writes a worried Nicola Magni, managing director of a mid-sized textile firm, the logical outcome of a fully open economy is that "most of South Africa's manufacturing industry must be shut down, simply because everything from a box of matches to a motor car can be imported at a cheaper price" The South African Production and Inventory Control Society adds that "the quality of South African products and services is among the worst in the world"

In any case, "quality", as Karl Marx was quick to point out, means essentially one thing production for the bourgeoisie

We have, then, a maelstrom of opinion and fact, some naive to the point of idealism, others cynical to the point of debilitation.

Perhaps it's time to ask ordinary people what they want, rather than falling quickly under IMF and World Bank domination in classic African tradition Much more than other forces in South African society, the ANC and Cosatu are beginning to do this, through branch meetings and educationals The SACP will soon pronounce on economic issues, and with Jeremy Cronin now highlighting retrenchments and other excesses of a degenerate, parasitical South African capitalism, the Party may reintroduce working class interests to the debate.

In fact, it doesn't take much common sense to figure out what sort of growth path serves the immediate interests of the vast majority

Protected, *low tech* labour-intensive production, in this hostile global system of superautomation and supercompetition is as necessary for peripheral economies as ever

And as for consumption, the search for "quality" so as to penetrate faddish foreign markets is probably not such a big issue when it comes to the more important basic goods currently denied two thirds of South Africa's population

Wmail 17/5 – 23/5/91

But it seems Rumney's dogmatic scepticism towards self-reliant economics (review of *Commanding Heights and Community Control*, in *The Weekly Mail*, April 26 to May 5) is much more in vogue, though graciously tempered by an offer to concoct this rebuttal What my recent book on the topic sets out are the historical parallels, for example the 1930s crisis in high finance and its opportunities for South Africa to limit dependence and broaden the economy — and the present-day struggles which aim, not for an "Albanian solution", but for the ascendance of democratic controls over the machinations of export-oriented financiers

For confirmation of the urgency of this distinction, one need only venture with the seductive foreign bankers, into international finance, which *The Economist* this week calls "a den of greed and chance in which the only way to win is to fix the roulette wheel"

Or, as the Bank report concluded, "it is unclear whether South Africa runs a greater risk of looking like Zimbabwe or a Latin American country" Will such prospects be debated openly, or, using the Stals/IMF methodology, be imposed anonymously from above?

● Patrick Bond is a development consultant and journalist based in Johannesburg

REG RUMNEY takes an opposing view 156

TAINTED though it is by discredited ideology, Patrick Bond's book, the *Commanding Heights and Community Control*, raises important issues.

One is that South Africa can rely for economic growth mainly on domestic industries supplying basic goods to the poor. This crucial idea pops up in the African National Congress discussion document, and the Congress of South African Trade Unions' blueprint for the economy But while both organisations give at least a nod towards trade, Bond goes a bit further than others on the Left to suggest that exports do not matter, and that we should delink from the world economy

Bond suggests that when South Africa was relatively delinked, in the 1930s and 1940s, manufacturing expansion, black employment and wages, and growth all surged. But this was the period of World War II, when disruption of shipping forced South Africa to engage quickly and widely in import replacement. Also, a war always brings a surge in activity Moreover, like losing one's virginity, one can only move from full colonial dependence once Depression also reigned then, because in part of a rise in protectionism. Much has changed since then, including technology Wmail

17/5 – 23/5/91

The October 1990 International Monetary Fund Survey shows quite conclusively an inward-looking economy cannot grow as fast as an outward-looking one Strongly outward-oriented countries showed growth in potential gross domestic product of 8,4 percent a year between 1975 and 1982, and 7,7 percent between 1983 and 1989, strongly inward-oriented countries showed growth of 2,3 and 2,2 percent for those two periods

For Bond, tied in with the notion we should go it alone is the belief that we must resist the machinations of international finance, including the World Bank and the IMF

Bond is not alone in taking a jaundiced view of development agencies and the IMF *But had we not squandered the windfall of high gold revenues through the Sixties, Seventies and Eighties we would not now need to enlist the aid of the IMF* We would also not have to listen to a word of its advice.

The money was squandered on, among other things, the expense of apartheid, when we could arguably have spent the money on building up industry to produce needed consumer goods, we were wasting it on misguided strategic import-replacement projects like Mossgas, in a vain attempt at self-sufficiency

Bond is wrong to say South Africa's low capital productivity is due to machinery being imported to sate the desire of whites for luxury goods (the moral opprobrium he attaches to "luxury goods for whites" is cheap rhetoric).

The alacrity with which machinery was imported is due to a number of factors Firstly, low interest rates made it more attractive to replace labour with machinery It is common wisdom too that employers felt it advisable to reduce their dependency on a restive labour force which they probably felt was making unreasonable wage demands

Secondly, just as cogent a reason is the technological imperative. Nowhere in Bond's book is the demand of technological advance brought into account. His argument is that "essentially all of the materials and machinery needed to produce these basic commodities are available within South Africa. Thus 'self-reliance' is no pipe-dream"

But machinery must be replaced because of wear and tear, and this will use foreign exchange since we do not and cannot produce all the machinery we need in South Africa.

It also ignores the necessity of keeping up with world technology

Underlying Bond's argument is the fatal assumption that because the goods produced are low-tech the machinery too is low tech

We have replaced imported products with local ones almost as much as we profitably can In some cases, we have gone too far, as some will argue about Atlantis Diesel Engines, another strategic project. To continue to benefit from technology we have to concentrate on areas where we have a competitive advantage, ie the beneficiation of our primary products, and import those goods which we can't profitably make here. An example is the local manufacture of autocatalysts, using our precious platinum

There is no question that we can neglect exports South Africa has an open economy, with up to 60 percent of the gross domestic product accounted for by trade.

Mining accounted for 66 percent of total exports in 1989, down from 77 percent in 1980, but still high Agriculture and fishing were a more or less stable five percent Product manufacture rose from 13 percent to 24 percent of total exports A decline in exports would cause — and because of the low gold price now is causing — massive job losses. *What should be exercising our minds now is how to change the nature of exports We have to switch from gradually depleting commodities, whose pricing is beyond our control and which have been depressed for far too long, to value-added goods for which we can demand far more money and use marketing skills to sell.*

Finally, and most damningly, nowhere in any of the economic frameworks including Bond's book is the consumer mentioned. Communities, workers, the poor — but no consumers. Consumers have not only needs, but wants Surely the lesson of the failure of centrally planned communist economies is that it is folly to produce what is not wanted?

Instead of planning the production of basic goods, we should aim for growth to give the poor more money to buy what they want, and allow them to be supplied in the cheapest way possible. This is far better than trying to emulate those mythical inhabitants of that paradoxical island who made a living by taking in each other's washing.

IMF head berates industrial countries

156

B1Day 24/5/91

WASHINGTON — IMF head Michel Camdessus scolded the US and other industrial countries this week for keeping out goods from Eastern Europe as it emerged from communist rule

"It is deeply regrettable that so little has been done by the industrial countries to open up their markets to imports from the reforming countries," he said in a speech prepared for a conference of the Chicago Council on Foreign Relations

"This reluctance could put in jeopardy the historically momentous process of systemic reforms in Eastern Europe"

It was strong language for an MD responsible to the 155 governments whose countries own the fund The text of the speech was distributed by his Washington headquarters

Camdessus, a Frenchman, said Western Europe had a special responsibility to welcome the trade of its Eastern European neighbours, but that the US and Japan had to share the responsibility He also complained on behalf of poor countries in Africa and Asia

"The barriers set by the industrial countries against many products that are important for the poorest countries, including textiles and clothing, footwear and some tropical agricultural products, remain high," he said

He urged completion of the Uruguay round of trade talks, which involve 108 countries in the effort to break down barriers

Camdessus said the Soviet Union was moving to reform its battered economy and settle power-sharing disputes with its republics, but the progress was slow

He said he saw "real movement" towards economic reforms in the Soviet Union but, he cautioned, "possibly I take my wishes for reality"

Soviet leader Mikhail Gorbachev agreed late last month with leaders of nine of the country's 15 constituent republics to turn the nation into a voluntary union, with a legitimately elected government and a market-based economy.

In a study released at the end of last year, the IMF and other international organisations painted a bleak picture of the Soviet economy

Camdessus said the situation may be even worse now because of the steep fall in the price of oil, a major Soviet export

"If the Soviets really address the problems at their roots, then the issue of the support of the West will appear ."

A team of Soviet experts is visiting the US this week to try to draw up an economic reform plan that they hope will win financial support from Britain, Canada, France, Germany, Italy, Japan and the US — Sapa-AP-Reuter

Upturn at end of year, says Barend

BDay 19/6/91 156

CAPE TOWN — Finance Minister Barend du Plessis said yesterday he could "confidently predict" that the economic upturn would begin at the end of the year or early in 1992

But its duration would be curtailed and growth of more than 2,6% would not be attainable unless SA had access to IMF funds

Du Plessis said in Parliament that the downturn had lasted longer than previous economic recessions — 27 months compared with the usual 17 But it had not been as severe, largely due to the sustained strength of private consumption

Access to foreign funds and strong foreign reserves were major determinants of a new growth phase, Du Plessis said

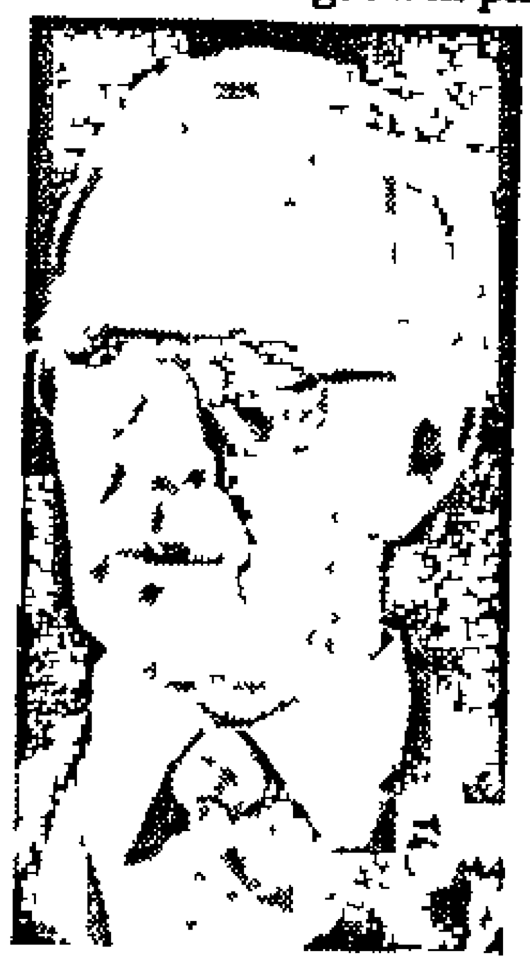
SA's foreign reserves were currently sufficient to cover two months' imports, but the country needed at least three months' reserves before it could move into a growth phase

Once the economy had turned around, there were several factors which would place a ceiling on its revival and sustained long-term growth These included the country's ability to attract foreign funding and compete in foreign markets, and ANC proposals for higher tax rates and a more liberal monetary policy, both of which would discourage foreign investment

LESLEY LAMBERT

SA's shortage of entrepreneurs and its low level of productivity would have to be addressed The country would also have to assure foreign investors that they could repatriate capital and not just dividends It would only be able to do this with the backing of IMF funds.

"The next growth phase will begin shortly But will we be able this time to exceed the point at which we have had to kill growth in the past because of a lack of IMF funding? Without assistance, we cannot exceed 2,6% growth per annum," Du Plessis said



● DU PLESSIS

He m[illegible] a plea to the [illegible]S Congress [illegible] drop sanctions after Monday's repeal of the Population Registration Act and he lashed out at the CP and the ANC for jeopardising the lifting of sanctions

Soviets to join IMF?

(156)

CT 25/6/91

MOSCOW. — The Soviet Foreign Ministry yesterday welcomed a proposal to give the Soviet Union associate status at the International Monetary Fund (IMF), and indicated it was still interested in full membership

"This is not a surprise for us because there has been a lot of talk about it," said Sergei Chestnoy of the ministry's International Economic Relations Department

"It's difficult to say what this status means this is a unique status, a kind of intermediate stage before becoming a full member of the IMF," he said in an interview

"But this is also good, at least it's something because before acquiring a full member status we could use technical and consultative assistance from the West."

A spokesman for Mikhail Gorbachev said the president's office had no immediate comment on the proposal, put forward in London on Sunday by finance ministers and central bankers of the Group of Seven industrialized nations

"We're thinking about it," said Sergei Grigoriev

Chestnoy said the experience of other countries suggests it takes six months to one year after applying to be granted IMF membership — Sapa-AP

IMF to grill govt on the economy

156

B/Day 2/7/91.

GRETA STEYN

THE IMF is to quiz government on virtually every aspect of the economy, including the success of its anti-inflation policy

The organisation has provided government with a detailed list of questions it wants answered on its visit scheduled to begin later this month Although the IMF visits SA every year to draw up a confidential report on the economy, this year is expected to see more senior officials visit SA.

The visit will follow soon after last month's by officials of the International Finance Corporation, a subsidiary of the World Bank Senior bankers who met the delegation say there is talk that the IFC is looking at possible involvement in private sector projects

The World Bank recently announced a shift in focus to loans to the private rather than the public sector.

The IMF's circular to government ahead of its visit asks it to state which policies it would use to ensure "an adequate degree of competition", noting that "high concentration of ownership of the manufacturing and mining sectors is often cited as an impediment to competition and to the efficient allocation of resources"

A major theme of the questionnaire, and possibly of the organisation's visit here, is the effect apartheid and sanctions have had on the economy's growth rate and balance of payments

Government is asked to discuss this, as well as provide figures on budgetary savings to be achieved after apartheid has gone.

Echoing the World Bank's report on SA, the IMF also notes the highly capital-intensive nature of the SA economy

It asks for comment on the factors causing this and for information on "measures that are being contemplated to reverse this trend in view of the need to generate employment opportunities"

There is also evidence that the IMF is concerned about the allocation of savings. In the section on monetary policy, the IMF wants details on reforms that might be contemplated to "ensure the increased direction of credit to non-white communities"

It also asks for a discussion on the behaviour of private sector savings and "policies being contemplated both with respect to mobilising increased private sector savings and to ensuring the appropriate allocation of these savings"

IMF waters down fear VAT will up inflation

(156) ARGUS 5/7/91

From SVEN LUNSCHE

JOHANNESBURG — The changeover from GST to VAT in October should have little impact on the inflation rate, according to a report by the International Monetary Fund (IMF)

The Deputy Minister of Finance, Dr Theo Alant, yesterday released a summary of the report on behalf of Finance Minister Barend du Plessis, saying South Africa "had followed very closely the recommendations of the IMF."

The IMF mission found that VAT would bring down the rate of inflation, but that the expansion of VAT to GST-exempt goods would put upward pressure on the rate of inflation.

So the likely outcome was that VAT on its own would have little impact on the rate

The other main recommendations by the IMF were

● A consumption-type VAT from the outset rather than phasing in full credit for VAT on capital and intermediate goods,

● A few essential food items should be zero-rated with maize meal and brown bread obvious choices; and,

● Food relief programmes for poorer communities should be introduced.

Mr Alant said the IMF would be advising the government.

Change-over to VAT will have litle impact on inflation — IMF

156

By Sven Lunsche

Star 5/7/91

The change-over from GST to VAT in October should have little impact on the inflation rate, says a report by the International Monetary Fund (IMF).

The Deputy Minister of Finance, Dr Theo Alant, yesterday released a summary of the report on behalf of Finance Minister Barend du Plessis, saying that SA "had followed very closely the recommendations of the IMF".

The IMF mission found that VAT would bring down the rate of inflation, but that the expansion of VAT to GST-exempt goods would put upward pressure on the rate of inflation.

The likely outcome was thus that VAT on its own would have little impact on the rate.

The other main recommendations by the IMF were:

- A consumption-type VAT from the outset rather than phasing in full credit for VAT on capital and intermediate goods.
- A few essential food items should be zero-rated with maize meal and brown bread obvious choices However to offset the rise in food prices that VAT would bring in its wake, measures must be taken to offer food relief programmes to the poorer communities.

Mr Alant said the IMF would be advising the government on these targeted food programmes, "which will enjoy strong financial support from future budgets".

- The introduction of VAT at 13 percent on all goods and at 13,3 percent if brown bread and maize were zero-rated, in order to ensure that revenue does not decline as a result of the new tax.

The SA government has stuck with the first two recommendations, but will introduce VAT at 12 percent despite a firm recommendation by the IMF to resist a major reduction below the revenue-neutral 13 percent.

At the same press conference the chairman of the Tax Advisory Committee (TAC), Professor Michael Katz, said that the TAC would continue its assault on wage compensation, in the form of fringe benefits

The recently announced changes to the tax on fringe benefits were fully in line with recommendations of the Margo Commission, he said.

"A fringe benefit is inequitable as it favours the wealthy against the average income earner, is prejudicial to small businesses and leads to economic distortions," Professor Katz said

Turning to the controversy surrounding the taxation of company bursary schemes Dr Alant said the rules were being tightened, not because Government wished to tax all bursaries, but to avoid the exemption being exploited to provide privileged employees with a tax-free income.

Growth dependent on IMF decision

Star 11/7/91

By Sven Lunsche (156)

The failure of the US to lift financial as well as trade sanctions could well put a lid on South Africa's next economic growth phase

Economists noted yesterday that while US President George Bush had scrapped the Comprehensive Anti-Apartheid Act, both the Gramm Amendment, which forces the US to veto IMF balance of payment support to SA, and the Evans Amendment, which restricts SA from US bank's trade financing, would stay in place for some time.

"As the economy is moving out of recession, access to foreign funding could make the difference between an annual growth rate of 1,5 percent over the next two to three years and growth of three percent," SA Chamber of Business (Sacob) economist Dr Ben van Rensburg said yesterday

By restoring normal relations with SA the IMF would send an important signal to foreign commercial and merchant banks that new loans and other financing facilities for SA companies were in order.

Until then overseas banks were likely to limit their dealings to the provision of trade credit financing.

Dr van Rensburg said at the presentation of Sacob's Business Confidence Index (BCI) that the economic recovery could be expected by the beginning of 1992

However, unless foreign exchange reserves were strong enough or SA has access to overseas financing facilities, the Reserve Bank would be forced to put a lid on economic growth, he said.

"Removing those financial sanctions could take quite a number of years," Dr van Rensburg said

However, there is no doubt the signal send by President Bush will make it easier to reschedule debt repayments to SA's foreign creditors.

JCI economist Dr Ronnie Bethlehem said financial sanctions had cost SA about R30 billion over the past seven years because the Reserve Bank had to keep a lid on the balance of payments to meet debt payments and prevent a massive capital flight.

Dr van Rensburg said that even without access to overseas funding, economic conditions were likely to favour good growth from 1992 onwards

His positive outlook was based on a number of factors.

- Prospects of stronger growth among SA's major trading partners towards the end of the year could result in an export-led recovery
- A strong trade balance, which had boosted SA's gold and foreign exchange reserves by around fifty percent over the past year and would allow more scope for imports to rise relative to exports than had been the case previously.
- The recent lifting of trade sanctions had increased access to new markets and improved opportunities for new business ventures.
- The recent firmer rand gold price had reduced the pressure on many gold mines and the prospect of further mine closures
- An expected sharp increase in capital and intermediate good acquisitions after the introduction of VAT in October.

Dr van Rensburg stressed, however, that business confidence at present was still uncertain — the BCI in June remained unchanged at 88,6 — "providing renewed evidence of depressed conditions that currently exist

"It now appears that business is treading water, waiting for the next cyclical upswing to begin

"In the meantime domestic political events and developments in major world economies will be of major importance to [illegible]," he said

Full return to world financial markets could be years away

156

Star 11/7/91

South African business got a much-needed confidence boost with the lifting of some United States sanctions, but a full return to world financial and export markets could be years away, analysts said yesterday

Political turmoil, lack of clarity on post-apartheid economic policy, and remaining sanctions by many US local authorities, were tough barriers to investment, they said

"The boost to confidence is terribly important but there will be little immediate effect on trade flows," said Jim Buys, chief economist of Anglo American, the country's largest company

"There's not going to be a rush of guys banging on the door with their cheque books," added analyst Tony Twine of economic consultants Econometrix

Wayne Mitchell, chairman of the American Chamber of Commerce, said "It's an important short-term psychological boost and quite a bit of money might now come into the stock market, but the cure is not going to happen overnight"

Economists said President George Bush's decision to lift the 1986 Comprehensive Anti-Apartheid Act opened the door to a bigger prize — renewal of access to International Monetary Fund (IMF) finance — but a vast network of sanctions applied by US cities and states would remain in force

"When the CAAA goes the battle only begins the whole question of city and local sanctions will remain to intimidate corporations," Mr Mitchell said

IMF loans

Access to the IMF is in effect blocked by the 1983 Gramm Amendment, which requires Washington's IMF representative to block loans because of apartheid

Mr Mitchell said the future of the Gramm Amendment would not come up for discussion in the US Congress until next year

While South Africa is unlikely to require IMF loans because it has no balance of payments problem, renewed access would unlock the commercial bank finance its stagnant economy needs

The economy recorded real growth of only about one percent annually in the 1980s and shrank again in 1990

The government says unemployment, currently around 50 percent among the black majority, could make South Africa ungovernable by the mid-1990s unless international banks resume lending, and economic growth returns

International banks cut off new credit to the country amid economic upheaval and a black uprising in 1985

Mr Mitchell said 197 US companies had pulled out of South Africa since 1983, including majors like General Motors, Proctor and Gamble and publishers McGraw Hill Only 36 US firms still operate in the republic

Azar Jammine of Econometrix said it was unlikely that any US firms would rush to build factories in South Africa until the political situation clarified

But he added "Given a peaceful future, the sky is the limit for American businessmen"

Mr Mitchell commented, however, that South Africa had never accounted for more than one per cent of total US foreign investment and he said there would be hot competition from Japanese, Germans, Italians and even Eastern Europeans for the best South African investment opportunities — Sapa-Reuter

AFRICA (156)

BAD TERMS

FM 12/7/91

Rising oil prices last year and the drop in prices of nonfuel primary commodities slowed growth in Africa The latest IMF *World Economic Outlook* says commodities most affected were tropical beverages (coffee, cocoa and tea) which fell to their lowest since 1980

The IMF expects higher growth by 1992 — 4,75%, up from 2% in 1990

But "little progress is expected to be made in alleviating poverty and real per capita GDP would remain near the level of 20 years ago The short-term outlook is particularly bleak in Ethiopia, Mozambique and Sudan, where drought, in conjunction with ongoing civil wars, threatens another episode of famine

"In Ethiopia there will also be continued transitional costs, in 1991, associated with market-orientated economic reform and the suspension of economic support from Eastern Europe and the USSR"

Sluggish growth has been accompanied by average inflation of about 15%-20% "In 1991 inflation is projected to increase to 22% from 16% in 1990, reflecting in part the lagged impact of higher oil prices, before falling to 10% in 1992."

The IMF says differences in policy stance have resulted in considerable variance in economic performance.

The inability of Cameroon, Liberia, Somalia, Sudan and Zaire to implement structural reforms, and social and political conflicts, have brought a deterioration in their economies In contrast, in Ghana, Kenya, Nigeria, Togo and Tunisia, "structural re-

continue →

FM 12/7/91

(156)

forms and stabilisation policies are being successfully carried out and real growth has increased" ■

IMF door open?

156

CT 13/7/91

SA now free to apply, says top Bush official

By ANTHONY JOHNSON
Political Correspondent

THE South African government was free to apply to the International Monetary Fund to use its loan facilities, the US Assistant Secretary of State for African Affairs, Mr Hank Cohen, said last night.

"The ball is now in the court of the South Africans," he said in a satellite link-up interview with journalists from various African countries

South African government ministers and Reserve Bank spokesmen have frequently blamed the lack of access to IMF capital as one of the key reasons for limiting the government's investment options and thereby curbing economic growth

However, Mr Cohen cautioned that US law required that country to vote against IMF facilities being made available to South Africa unless it could be shown that this was likely to "ease" apartheid

The South African government has in the past two years earmarked R3 billion over and above normal budgetary allocations to development projects aimed at eliminating apartheid backlogs.

Questioned about the future relationship between South Africa and the 20% US-owned IMF last night, Mr Cohen suggested the questioner "talk to Barend du Plessis"

Mr Du Plessis was not available for comment last night but the director-general of Finance, Mr Gerard Croeser, told the Cape Times that any possible application for IMF facilities would have to be examined thoroughly from a tactical point of view

The IMF will be sending an "ordinary" mission to South Africa later this month and it is possible that the pros and cons — on both a technical and political level — will be discussed on an informal basis

During the satellite link-up Mr Cohen said he was "sure" there were not enough votes in Congress to overturn the decision by President George Bush to lift sanctions affected by the Comprehensive Anti-Apartheid Act

Mr Cohen said he was surprised at the "lack of joy" among members of the mass democratic movement in South Africa at the lifting of sanctions as this move signalled a victory for their struggle for basic reforms that would now lead to negotiations for a new constitution

He noted that remaining US sanctions on trade and international lending to South Africa would be used to pressurise both the government and the mass democratic movement to move ahead rapidly with negotiations

"A new constitution has not been written yet, democracy has not arrived yet"

Mr Cohen said he did not believe the latest decision to lift sanctions would either strengthen the position of the De Klerk government ahead of negotiations or weaken the ANC

He also said the importance of sanctions should not be exaggerated

"Sanctions played a modest role in bringing about change in South Africa But the key thing to look at is the relationship between black organisations and the government. They both have a commitment to negotiate," he said

IMF funds soon if SA can get its house in order

CT 16/7/91

(15b)

Washington Letter
by SIMON BARBER

EXPLICITLY or implicitly, the external constraints on SA's reconstruction that are subject to the craven perversity of the US Congress have fallen away What look like continued obstacles — the restrictions on access to the IMF and the US Export-Import Bank, as well as the much brouhaha-ed "sanctions" imposed by US state and local authorities — are only obstacles so long as South Africans choose to treat them as such

If SA starts to get its economics and politics right, IMF and EXIM financing will soon become available without any changes having to be made to existing US law At the same time, state and local authorities will be obliged to issue waivers to their selective purchasing statutes (as some are already doing) if they wish to do business with established banks and suppliers For, likely as not, those banks and suppliers will be doing business with SA and telling New York's Mayor Dinkins and his ilk to go to hell

SA's future is now, more than ever, in the hands of South Africans themselves Foreigners no longer provide any credible excuse or crutch for failure Abject leadership, moronic ideology and the self-inflicted wounds of the past are the only real sanctions left and they are all homegrown

It is up to government, in both its present and future manifestations, to take decisions and adopt policies that will let markets operate most efficiently to create and spread wealth on a sustainable basis

Foreign investment — the Cargo Cult of the '90s as Francis Fukuyama has called it — is not going to save the day

Renewed and healthy inflows of foreign capital and technology are indeed one condition for SA to achieve growth with equity, but they are not the only ones and are themselves conditional on much else besides above all, a clear, credible and long-term commitment from SA's rulers, whoever they may be, to placing a higher priority on sound macro and microeconomic management than on short-term political interest and advantage

Investors, foreign and domestic, will be prepared to bet on SA's future — that is to say, risk present loss in expectation of future reward — if its government is prepared to bet with them The government can encourage investors by betting on its future in a number of ways It can be fiscally responsible while allocating resources in areas — education, public health and infrastructure — that increase the efficiency of the marketplace It can divest itself of all its politically expedient but economically unproductive encrustations, in particular its vast jobs-for-the-boys bureaucracies with their larcenous pension schemes

State-owned enterprises can be returned to the private sector however ever much the political opposition screams Price-distorting policies can be phased out protection, subsidies, price controls, discriminatory tax structures, biased regulatory mechanisms and artificial exchange rates must all go

Such steps require courage of an order as great, if not greater, than President De Klerk's agreement to negotiate the National Party out of exclusive power racial socialism has created a mighty array of entrenched interests and rent-seekers Those wishing to take over the warm spot in the feather bed will have to be faced down, too

One of the reasons the IMF exists is to help countries make the transition from bad to good government by making available standby credits to restore the market's confidence while the restructuring process is underway

Most important of the advantages to SA of having access to such facilities is that it will be able to retool and render more productive its stagnant economy That the IMF stands ready to top up SA's foreign exchange balances will enable the Reserve Bank to release more dollars and marks and pounds so that business can borrow and buy new machinery from abroad

It will make also possible the scrapping of the two-tier exchange system and a reduction of the prohibitive tax on imported capital goods Both have helped make SA's manufacturers uncompetitive in world markets and have thus crippled employment

Greater productivity will, in addition, help reduce inflation by restoring the balance between available goods and money supply That in turn will enable an easing in interest rates and the effective tax they place on productive activity Combined with good policy, the IMF can thus help SA move from a vicious economic cycle to a virtuous one

However, if SA's various parties cannot between them create a climate for investment and regeneration, the Fund does not have it in its gift to do the job on their behalf It cannot force investors to invest It cannot turn Zambia into Taiwan It can only assist those who demonstrably wish to help themselves

Convincing US

The Fund was not chartered as a cheap credit window for inherent losers "A country practising apartheid", as SA is referred to in Gramm, is a country that self-evidently is not making the fundamental market-oriented reforms IMF credits are designed to facilitate

That now has changed, irreversibly All that remains is for SA to convince the Fund's largest shareholder, the US, that the change is irreversibly towards a goal the attainment of which could usefully be supported by Fund credits. In concrete terms, that means getting full-blown constitutional negotiations under way so that the world may judge whether or not the new SA intends to govern itself sensibly

If the omens are decent, the Bush administration will quietly inform the IMF that it will back a commitment to provide standby credits to SA should they be requested The administration will be perfectly within its rights to do this under the Gramm Amendment as written It will entail no change in US law or even, until SA actively applies to make a drawing, any public statement

The Fund will then pass word that its executive board is ready to be of service and advise SA's financial authorities to start taking the necessary steps to reflate the economy

SA's destiny is back in the hands of its own people

156

6/7/91 BDay 1/7/91

SIMON BARBER in Washington

EXPLICITLY or implicitly, the external constraints on SA's reconstruction that were subject to the craven perversity of the US Congress have fallen away. What looks like continued obstacles — the restrictions on access to the IMF and the US Export-Import (Exim) Bank, plus the much brouhaha-ed "sanctions" imposed by US state and local authorities — are obstacles only as long as South Africans choose to treat them as such.

If SA starts to get its economics and politics right, IMF and Exim financing will soon become available without any changes having to be made to US law At the same time, state and local authorities will be obliged to issue waivers to their selective purchasing statutes (as some are already doing) if they wish to do business with established banks and suppliers For, likely as not, those banks and suppliers will be doing business with SA.

SA's future is now, more than ever, in the hands of South Africans Foreigners no longer provide any credible excuse or crutch for failure. Abject leadership, moronic ideology and the self-inflicted wounds of the past are the only real sanctions left, and they are all homegrown

It is up to government, in both its present and future manifestations, to take decisions and adopt policies that will let markets operate most efficiently to create and spread wealth on a sustainable basis That, as the World Bank convincingly demonstrates in its latest annual world development report, will require a combination of sophistication, open-mindedness and courage not currently on great display among SA's ruling elites

Foreign investment — the Cargo Cult of the 1990s as Francis Fukuyama has called it — is not going to save the day. Believing that is quite as puerile as the ANC's continued incantations on sanctions.

Renewed and healthy inflows of foreign capital and technology are indeed conditions for SA to achieve growth with equity, but they are not the only ones and are themselves conditional on much else besides: above all, a clear, credible and long-term commitment from SA's rulers, whoever they may be, to placing a higher priority on sound macro- and micro-economic management than on short-term political interest and advantage.

Investors, foreign and domestic, will be prepared to bet on SA's future — to risk present loss in expectation of future reward — if government is prepared to bet with them

Government can bet in a number of ways It can be fiscally responsible while allocating resources in areas — education, public health and infrastructure — that increase the efficiency of the marketplace. It can divest itself of all its politically expedient but economically unproductive encrustations, in particular its vast jobs-for-the-boys bureaucracies State-owned enterprises can be returned to the private sector however much the political opposition screams Price-distorting policies can be phased out. protection, subsidies, price controls, discriminatory tax structures, biased regulatory mechanisms and artificial exchange rates must all go

Such steps require courage of an order as great, if not greater, than President F W de Klerk's agreement to negotiate the National Party out of exclusive power. racial socialism has created a mighty array of entrenched interests and rent-seekers all of whom will inevitably suffer intense withdrawal symptoms when obliged to compete on a level playing field. Those wishing to take over the warm spot in the featherbed will have to be faced down, too.

Like apartheid itself, most of the distortions that continue to strangle the SA economy were imposed to make the marketplace do what it would not otherwise have done Left to itself, the market would have punished the appalling Nat government through massive capital flight Instead, businesses and banks simply did what they could those in a position to withdraw their stakes did so, those that could not refused to wager any more capital, imposing on the country an embargo more devastating than any dreamt up in the US Congress Between 1980 and 1989, according to the World Bank, gross domestic investment fell by 4,5% annually Need more be said?

One of the reasons the IMF exists is to help countries make the transition from bad to good government by making available standby credits to restore the market's confidence while the restructuring process is under way. In SA's case, access to such facilities, and the seal of approval it applies, will do several highly desirable things

Most importantly, it will enable SA to re-tool and thus render more productive its stagnant economy The certainty that the IMF stands ready to top up SA's foreign exchange balances will enable the Reserve Bank to release more dollars and Deutschmarks and pounds so that business can borrow and buy new machinery from abroad

It will also make possible the scrapping of the two-tier exchange system and a reduction of the prohibitive tax on imported capital goods Both have helped make SA's manufacturers uncompetitive in world markets and have thus crippled employment. Employers have been obliged to offset high capital costs by cutting labour ones.

Greater productivity will, in addition, help reduce inflation by restoring the balance between available goods and money supply That in turn will enable an easing in interest rates and the effective tax they place on productive activity Combined with good policy, the IMF can thus help SA move from a vicious economic cycle to a virtuous one.

However, the IMF cannot help if the government and its would-be replacements remain wedded to follies that the marketplace chastises. If the various parties cannot create a climate for investment and regeneration, the IMF does not have it in its gift to do the job on their behalf. It cannot force investors to invest It can assist only those who demonstrably wish to help themselves

This is a far more important fact than the Gramm Amendment, which, ultimately, is only a restatement in American law of the IMF's own basic principles It says, in effect, that the US should oppose any IMF assistance to SA until SA has met the preconditions the fund should have itself imposed had it done its job properly the last time SA came by for support in the early Eighties

The IMF was not chartered as a cheap credit window for inherent losers "A country practising apartheid", as SA is referred to in Gramm, is a country that self-evidently is not making the fundamental market-orientated reforms IMF credits are designed to facilitate

That has now changed, irreversibly All that remains is for SA to convince the IMF's largest shareholder, the US, that the change is irreversibly towards a goal whose attainment could usefully be supported by fund credits In concrete terms, that means getting full-blown constitutional negotiations under way so the world may judge whether the new SA intends to govern itself sensibly

Lest any have been carried away by recent events, let it be remembered that the jury is still very much out on that question Good governments, one might note, do not as a rule empty their jails by way of ostentatious gesture It demonstrates a rather terrifying lack of self-control

Nonetheless, if the omens are decent, the Bush administration will quietly inform the IMF that it will back a commitment to provide standby credits to SA should they be asked for The administration will be well within its rights to do this under the Gramm Amendment It will entail no change in US law or even, until SA actively applies to make a drawing, any public statement

The IMF will then pass word that its executive board is ready to be of service, and advise SA's financial authorities to start taking the necessary steps to reflate the economy

Upswing 'higher, longer'

IMF on hand to help with BoP problems

CT 17/7/91

156

By AUDREY D'ANGELO
Business Editor

SA's next upswing will be higher and last longer than those in the past 15 years because it can expect help from the International Monetary Fund (IMF) if it runs into balance of payments difficulties, economists said yesterday

They said this was implied by a draft communique from the Group of Seven (G7) countries that SA needs economic assistance — including access to foreign capital markets — to restore growth and create greater opportunities for the majority of its population.

First National Bank chief economist Cees Bruggemans said the declaration was "of crucial importance"

But he and other economists warned it was unlikely to mean substantial aid, loans and investment in the immediate future

They said some aid might come for specific development projects. But, even though the attitudes of governments had changed towards SA, private firms would wait for more stable conditions and more certainty about the type of economy this country would have before investing here

The communique implied, however, that SA could expect help from the International Monetary Fund (IMF) if it ran into balance of payments (Bop) problems during the next upswing, and from the World Bank.

The communique was issued in London yesterday by the leaders of the G7 countries — the US, Japan, Germany, France, Britain, Italy and Canada

It said there was "an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity"

SA needed "normal access to all sources of foreign borrowing" to pursue these aims.

SA Chamber of Business (Sacob) chief economist Ben van Rensburg said the communique gave a positive message It implied that access to IMF funding was "only months away."

Normal access

Van Rensburg continued:"We don't need immediate funding and I don't think the IMF will step in to fund SA in a big way.

"Where we will need its support is when we have created a growth path — about 18 months down the line

"We will need it to step in if we run into BoP problems, so that the Reserve Bank will not have to dampen the economy down again by using restrictive monetary policies"

Boland Bank chief economist Louis Fourie said the G7 communique was "a very promising gesture.

"But at the end of the day it will depend on SA's performance whether the investment we need is available Government's can OK us but investment will come only on the back of increased confidence in SA.

RESTORATION of SA's access to the International Monetary Fund (IMF) — still frustrated by the US Congress — would be as big a step forward as the termination of the US Comprehensive Anti-Apartheid Act, says Anglo American Corporation chairman Julian Ogilvie Thompson in the annual report

He describes restored access as "a highly political matter", which could well be delayed until later in the year.

"In the meantime, as commercial banks usually take their lead from the IMF, the delay has the unfortunate effect of continuing to starve the country of new capital for desperately needed development."

"IT is investment from overseas that will really boost SA, rather than the availability of loans"

Fourie said he did not foresee any outflow of foreign capital and there might be an inflow

But he did not think the two-tier foreign exchange system was likely to be abolished

"It would be a stupid exercise that would not prove anything We must keep the financial rand even if the discount (between it and the commercial rand) narrows to zero. Otherwise we are really playing with fire"

Sanlam chief economist Johan Louw said the G7 communique was "more of a gesture than anything else, but it is a good indication of the change in attitude to SA"

There might be small grants towards improving education and housing in SA "But private companies will wait to see what kind of economic and political system we are going to get I don't see much money coming into SA for the next year or two."

Bruggemans said the communique indicated that, now the situation in SA had changed, there was no sense in running the economy into the ground

"It does not mean that the G7 countries are going to go out of their way to help us But they are indicating that we should have no undue obstacles put in our way.

"That points straight at the IMF and the World Bank."

This meant that next year, when SA had built up its reserves and the economy was growing strongly, it would have access to IMF financial facilities "That means that the next upswing will not be a one-day wonder and the Reserve Bank will not have to guillotine it prematurely

"That will be crucial to the very substantial upswing which I am certain is on the way and can be sustained for a number of years"

Bruggemans said one of the functions of the IMf was to help countries in the process of restructuring their economies

"Unlike the basket cases, we in SA are doing something to help ourselves

"The G7 communique gives moral support for returning to normality — and it is very important indeed."

G7 agree to Soviet links with the IMF

(156)

Star 17/7/91.

LONDON — Leaders of the Group of Seven (G7) major industrialised countries agreed yesterday that the Soviet Union should have a special relationship with the International Monetary Fund, a Japanese official said.

The G7 leaders also agreed that they would extend technical assistance to the Soviet Union

The official was briefing reporters on a working lunch between the leaders of the US, Japan, Germany, Italy, France, Britain and Canada

He said they also reached a basic agreement to use the IMF, the World Bank, the Organisation for Economic Co-operation and Development and the European Bank for Reconstruction and Development to study what can be done to help the Soviet Union reform its economy.

But they were divided on the details of assistance and how it should be delivered

The G7 leaders are to discuss economic reform proposals put forward by Soviet President Mikhail Gorbachev in an unprecedented meeting with the Kremlin chief in London today

In a letter setting out his goals, Mr Gorbachev said he had high hopes that the meeting would help him implement radical changes

On the question of arms, the G7 agreed to work for a United Nations register of all arms sales, to prevent any country building a military machine that could threaten its neighbours

In a special declaration on arms transfers and non-proliferation, the summit said "We support the proposal for a universal register of arms transfers under the auspices of the UN"

The statement was adopted by the US, Japan, Germany, France, Britain, Canada and Italy

But it stopped short of calling for a temporary ban on arms sales to areas of tension such as the Middle East, as some politicians and experts had suggested

Instead, the seven recognised that many states needed to buy weapons to ensure their security.

But they said the Persian Gulf crisis had shown the dangers of allowing a country such as Iraq to acquire a massive arsenal far beyond the needs of self-defence "Such abuse should not happen again." — Sapa-Reuter

● Russian gambit — Page 15

S| Times 14/7/91. 156

Constitutional talks will open the way for IMF funds

THE SUNDAY MORNING ASSESSMENT
by SIMON BARBER in Washington

SOUTH AFRICA will not have access to desperately needed International Monetary Fund financing until further concrete steps are taken towards agreement on a new constitution.

That was the the broad consensus of US officials, congressional sources and financial analysts in Washington this week following President George Bush's decision to rescind the sanctions contained in the Comprehensive Anti-Apartheid Act.

SA stands to obtain IMF loans of nearly $2-billion (R5,6-billion), according to estimates presented to Congress last year, but it all depends on whether the Bush administration is prepared to give the go-ahead.

More importantly, an IMF decision to grant such loans will be viewed by international financiers as a signal that SA is a safe bet, since private sector lending would, in effect, be partially guaranteed. Until then the pump will be dry.

The collapse of trade and investment bans notwithstanding, without the IMF's resources and its seal of approval, SA will be hard-put to reflate its economy, enhance its productivity and international competitiveness, and create jobs for the 40 percent of its working age population which is unemployed.

SA's re-engagement with the fund may also have an important knock-on effect regarding state and local sanctions which persist as an important brake on US investment and trade.

If the international marketplace decides that SA is a sound investment again, local authorities will have to ignore or waive their own laws to continue dealing with major companies and banks.

This will obviate the need for any constitutional challenge to "local foreign policies", which is just as well since such a challenge, if it ever emerges, is likely to be extremely long drawn out.

The key obstacle to the normalisation of relations between the fund and SA is widely misunderstood. There is no formal ban, nor, in theory at least, does the US necessarily have a veto.

The position is as follows: In November 1982, SA drew $1,1-billion (R3-billion) from the fund with US backing. This was controversial not only among anti-apartheid activists, but within the fund itself.

Many members, especially from developing countries, argued that SA did not need the money and was only looking for credit at concessional rates.

They also contended that apartheid so distorted the country's economy that SA should not be eligible for further loans under the IMF's own rules unless it instituted massive political reform.

The US Congress, which is responsible for approving Washington's contribution to the fund's overall capital responded by enacting the Gramm Amendment.

The fund is run like a public company. Each representative on its board of directors wields voting power proportional to his government's share in the organisation's capital. This means the US has around 19 percent of the vote. Other industrialised countries combine for 46 percent, the Third World for 34 percent.

Since there are a limited number of seats on the board, smaller countries form groups, effectively pooling their shares in order to achieve representation. Since 1983, no one has wanted SA on their team, so Pretoria is voteless.

The Gramm Amendment called for the US director to "actively oppose" any SA drawing unless it met certain criteria related to the removal of the economic distortions caused by apartheid. In addition, SA would have to be in genuine balance-of-payments straits.

Given that the Third World would automatically vote against SA, and assuming the US administration did not interpret "actively oppose" as a summons simply to abstain, this was tantamount to a veto on SA borrowings.

Though both the foregoing assumptions remain valid, particularly the former, the situation now is rather different.

As long as SA has run down the balance-of-payment surplus it has been forced to incur to pay off its foreign currency debts following the informal lending embargo imposed in 1985, a tactfully crafted loan application would almost certainly qualify under Gramm's own terms.

The determination rests with the US Treasury Secretary — which means the President who appointed him. If they decide the application qualifies, all they have to do is inform certain congressional committees and instruct the US fund director to vote accordingly.

The Bush administration has signalled Pretoria that it is not in a political position to support an SA drawing now. It feels the dust must be allowed to settle after the removal of the CAAA sanctions.

The reason is twofold. One, Bush used the fact that the Gramm Amendment would remain in force to buy acquiescence for his decision on the CAAA. Two, he will be asking Congress later this year to increase the US contribution to the fund and World Bank.

He does not want this replenishment held hostage over SA, nor does he want to see Congress close the existing loopholes that will enable the US to support an SA application later.

Even after the replenishment, however, there is a strong feeling here that there should have been enough progress in SA to justify Bush's CAAA decision before he takes another step.

That means getting concrete constitutional talks up and running.

Low Equity poll votes to maintain SA ban

Bday 10/7/91.

KIN BENTLEY

LONDON — British actors' union Equity yesterday voted against lifting its ban on the sale to SA of television and radio material involving its members

Veteran actor Marius Goring, who forced the referendum to be held, said he would pursue the matter through the courts and hoped to get the ban declared unconstitutional within three months

In a low poll, 6 675 (14,5%) of the total of 46 000 Equity members voted on lifting the ban, which was imposed following a similar referendum in 1976

Of the 6 650 valid papers in the postal ballot, 3 763 (56,6%) voted against ending the ban, while 2 887 (43,3%) were in favour

A second question — whether Equity should discontinue its policy of excluding SA from a list of countries where theatre actors may tour with the backing of the union — was defeated by a similar margin

Goring, 79, said he had already instructed lawyers to resume a case against Equity which was adjourned earlier this year in order that the issue might be settled at less cost through the referendum

Some Equity council members have already successfully brought one action against Equity

In 1986 the High Court declared that Equity's policy of instructing members not to work in SA was sectarian and unconstitutional

Goring's application on the policies in yesterday's referendum is based on a claim that they are unconstitutional for the same reason — namely that they are sectarian, which is forbidden in the Equity constitution

☐ To Page 2

Top money men for key talks in South Africa

CT 18/7/91

HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — A high-level team from the International Monetary Fund will arrive in South Africa next week for 14 days of intensive talks with the government and the private sector which could be the prelude to the lifting of the last major sanctions and the granting of a long-awaited IMF loan before the end of the year.

Although the talks will form part of the IMF's regular annual consultations with member states, the visit comes in the wake of President Bush's decision to lift sanctions and the announcement by the Group of Seven after its meeting in London this week, that South Africa needs assistance in restoring economic growth and creating opportunities for its deprived black majority

It was learned today that the issue of South African access to IMF loans is now under discussion between the Bush administration and the South African government, and there is a growing belief on Capitol Hill and in banking circles that the Gramm Amendment, which prohibits the US from supporting IMF loans to countries which enforce apartheid, could be challenged by a formal White House proposal to back a major loan to South Africa

While this might precipitate a clash on Capitol Hill with supporters of sanctions, the South African government could diminish the opposition of its opponents by making conspicuous progress in breaking down the legacy of apartheid and especially in persuading "homelands" such as Bophuthatswana to release political prisoners

Diplomats suggest that this is precisely the message which President Bush conveyed to President De Klerk by telephone last week after he had lifted sanctions against South Africa

Because the US is by far the largest contributor to IMF funds, its support in the IMF is crucial to any major IMF loan

The IMF delegation to South Africa will be headed by Mr M Guirain, deputy director of the IMF's European department (the department under which South Africa falls) and will meet the Minister of Finance, Mr Barend du Plessis, the governor of the Reserve Bank, Dr Chris Stals, and a broad cross-section of government officials and private sector personalities in the field of housing, education and social welfare.

Significantly, the IMF delegation will also be meeting important personalities in the private sector, and the "quasi private sector", among them Mr Jan Steyn, former director of the Urban Foundation and now head of the Independent Development Trust

156

Visit by top IMF team may presage major loan

Star

By Hugh Roberton
Star Bureau 18/7/91.

WASHINGTON — A high-level team from the International Monetary Fund (IMF) will arrive in South Africa next week for 14 days of intensive talks with the Government and private sector

The visit could be the prelude to the lifting of the last major sanctions and the granting of a substantial, long-awaited IMF loan before the end of the year.

Although the talks will form part of the IMF's regular annual consultations with member states, the visit comes in the wake of President Bush's decision to lift sanctions and the announcement by the Group of Seven after its meeting in London this week, that South Africa needs assistance in restoring economic growth and creating opportunities for its deprived black majority.

It was learnt yesterday that the issue of South African access to IMF loans is now under discussion between the White House and Pretoria, and there is a growing belief on Capitol Hill, and in banking circles, that the Gramm Amendment which prohibits the US from supporting IMF loans to South Africa could be challenged by a formal White House proposal to back a major loan

While this might precipitate a clash on Capitol Hill with supporters of sanctions, Pretoria could undercut its opponents by persuading "homelands" to release all political prisoners

Diplomats suggest that this is precisely the message President Bush conveyed to President de Klerk in telephone talks last week

The IMF delegation will be headed by M Guirain, deputy director of the IMF's European department It will meet the Minister of Finance, Barend du Plessis, the governor of the Reserve Bank, Chris Stals, and a cross-section of Government officials and private sector personalities in housing, education and welfare

'er VAT

156

Union, Housewives League, Civic Associations of Southern Transvaal, National Black Consumers Union, National Council of Trade Unions (Nactu), National Council for the Care of the Aged and Consumer Council

Yesterday it was announced that talks on VAT had taken place on Tuesday between the Minister of Finance and 13 trade unionists.

The union delegation was led by Congress of South African Trade Unions general secretary Jay Naidoo and Nactu general secretary Cunningham Ngakula

Cosatu said the issue of VAT on trade union subscriptions and on basic foodstuffs, medical supplies and services had been raised

"We exchanged perspectives and information, as a result of which Cosatu will be urgently submitting further representations"

● More reports — Pages 2 and 13

...e telling trail ...

spotted a trail of loaves It led them to the van where they arrested the thief

"The loaves of bread fell out of the back of the van," said a policeman — Sapa-Reuter

Of thieves in Oz

MELBOURNE — Australia's trans-continental train, the Indian Pacific, is a mobile den of thieves, with R2,5 million worth of property being pilfered from it each year, says rail chief, Russell King — Star Foreign Service

Key IMF loan before year's end?

156

CT 19/7/91

From SIMON BARBER

WASHINGTON, — The arrival of an IMF team in SA next week could herald the lifting of the last major sanctions and a much-needed IMF loan to SA before the end of the year

The team, headed by Manuel Guitian, deputy director of the Fund's European Department, will be in the country for two weeks for the Fund's annual Article IV consultations on the state of the SA economy

It is expected to submit a confidential report to the Fund's board of directors in time for the IMF and World Bank annual meetings in Bangkok next September

The team will hold discussions with Reserve Bank and Department of Finance officials as well as with the private sector

Leaked copies of the 1982 staff report, which found the SA economy severely distorted by apartheid, contributed to the US Congress' adoption of the Gramm Amendment, requiring the US executive director to "actively oppose" further SA borrowings unless certain conditions had been met

The forthcoming report may indicate (though it will not directly state) that most of those conditions have at last been satisfied and that if Pretoria were to run a genuine BoP deficit, granting it access to IMF facilities might now be desirable

Last year's report came close, noting that "a cumulative dismantling of the effective system of apartheid can be seen to have taken place" and calling for "steps to raise the economy's access to savings, domestic and international"

IMF spokesman Graham Newman explained that before the Fund's management could present an SA credit application to the board, it would need to be assured that there was a large measure of consensus among members that the application should be granted

G7 assistance doesn't quite touch the G-spot

By REG RUMNEY

IT may be good news, but jubilation about the message of support from the Group of Seven (G7) nations for South Africa's economy is a bit premature.

The G7 said South Africa needed economic assistance, including access to foreign funding

The powers which make up the G7 have in effect given the green light to loans from the International Monetary Fund (IMF) and the World Bank.

True, the announcement has more than symbolic meaning. Other things being equal, it may encourage much-needed new private-sector investment in South Africa.

But the announcement does not mean immediate access to new loans as IMF and World Bank funds are still effectively blocked by the United States. WMail 19/7-25/7/90

More important than access to IMF credits for balance of payments (BoP) stabilisation, a recovery of the rather sickly world economy is crucial. Without healthy growth in our trading partners South Africa cannot hope for an upturn, which is now forecast by some for the beginning to the middle of next year

It is 18 months or so into a boom we may need access to IMF funding to tide us over an expected drop in the surplus of the current account of the BoP as imports outstrip exports, as South African Chamber of Business chief economist Ben van Rensburg has pointed out.

There should also be caution about taking up foreign loan money anyway.

Arch-critic of the international financial set-up, Institute for African Alternatives director Ben Turok warns that IMF loans are onerous, and do not allow rescheduling.

He reminds that the burden of debt servicing has devastated large parts of the Third World. This is something about which South Africa, as part of Africa, should be aware

Nedbank's economic unit has warned that World Bank loans, which are longer term than IMF funding and for development, and not related to the BoP, should be directed towards projects offering long-term growth potential, and not be squandered on financing projects of national prestige.

The increased economic assistance proffered by the G7 may be disappointing

According to a report in *Business Day* the amount now granted to South Africa in aid is R450-million, and this could double in the wake of the G7 anouncement That is small beer in terms of South Africa's economy.

Nedcor chief economist Edward Osborn points out that aid itself has to be handled carefully to avoid the kind of aid dependency that African countries have fallen into.

GROWTH AFTER SANCTIONS FM 19/7/91 156

This isn't the kick-off

Whether the imposition of trade sanctions by the US actually did galvanise the National Party into irreversible reform is now solely in the realm of conjecture. Nor is the removal of US sanctions likely to kick-start this economy into a period of rapid growth — it remains too dependent on the revival of growth in the economies of its trading partners

Its depressed state, the likelihood of political instability and the threat of nationalisation will all combine to discourage an inflow of real fixed investment Indeed, that sort of capital is still on the way out

But it does open up possibilities for rapid and energetic diplomatic initiatives abroad to secure future markets, and for SA businesses to participate with less political inhibition in economies more prosperous than government has allowed ours to be. That would add to domestic prosperity

Before that process can begin in earnest, exchange controls on residents need to be substantially liberalised. Before Pretoria will do that, it in turn will need the assurance of access to International Monetary Fund standby credits or participation in one of the structural adjustment programmes. The relatively modest foreign debt still caught in the net could then be either repaid or negotiated into a form that would not constrain growth.

In that regard, the attitude of the Group of Seven industrial nations meeting in London this week towards assisting our economy is more hypocritical than helpful. What this country needs, more than what would amount to aid flows for investment in education and housing, is a resumption of economic growth. That would lead to a more permanent reduction of unemployment.

If the Group of Seven is so concerned about the disadvantaged here it would do more good by bringing pressure on the US to remove its blocking mechanism on SA's access to IMF funding If the Bush administration has accepted that reform towards the creation of a liberal democracy is irreversible, then it is churlish and politically self-serving for the US to allow the IMF embargo to remain in force

What would also help is if all those African "democracies" to the north, who are queueing and yearning for relatively cheap SA manufactures, were also to lend their support to the removal of a major restraint on an economy that could produce them at an even lower cost

Pretoria could help by continuing to liberalise the economy By continuing to deregulate, reduce protection and privatise (the last especially appears to have been abandoned) it could demonstrate more vigorously that apartheid is no longer the artificial economic constraint that the US, via the IMF, was refusing to finance. ■

IMF team may decide timing for SA access

BDay 19/7/91 (156)

SIMON BARBER

WASHINGTON — Conclusions reached by an IMF staff mission that is due to arrive in SA next week could have an important impact on when SA access to IMF credit lines is restored

The team, headed by IMF European department deputy director Manuel Guitian, will be in the country for two weeks for the IMF's annual Article IV consultations on the state of the SA economy

It is expected to submit a confidential report to the IMF board of directors in time for the IMF and World Bank annual meetings in Bangkok in September

The team will hold discussions with Reserve Bank and Finance Department officials, as well as with the private sector, and will make recommendations to government on the basis of its findings

The 1982 staff report, which found the SA economy severely distorted by apartheid, contributed to the US Congress' adoption of the Gramm Amendment, requiring the US executive director to "actively oppose" further SA borrowings unless certain conditions were met

The forthcoming report may indicate, though it will not directly state, that most of those conditions have been satisfied at last and that if Pretoria were to run a genuine balance of payments deficit, granting it access to IMF facilities might be desirable now

IMF spokesman Graham Newman explained that before the fund's management could present an SA credit application to the board, it would need to be assured that there was a large measure of consensus among members that the application should be granted

The team's findings could play a critical role in solidifying a pro-SA consensus, even though President George Bush's administration is unlikely to join it officially until after Congress has voted on its request for fresh capital for the IMF and World Bank

(156)

Top IMF team in SA next week

Star 19/7/91

By Hugh Roberton
Star Bureau

WASHINGTON — A high-level team from the International Monetary Fund (IMF) will arrive in South Africa next week for 14 days of intensive talks with the Government and private sector

The visit could be the prelude to the lifting of the last major sanctions and the granting of a substantial, long-awaited IMF loan.

Though the talks will be part of the IMF's regular annual consultations with member states, the visit comes in the wake of President Bush's decision to lift sanctions, and the announcement by the Group of Seven at its meeting that South Africa needs assistance in restoring economic growth and creating opportunities for the black majority.

Clash fears

It was learnt that the issue of South African access to IMF loans is now under discussion between the White House and Pretoria, and there is a growing belief on Capitol Hill and in banking circles that the Gramm Amendment, which prohibits the US from supporting IMF loans to South Africa, could be challenged by a formal White House proposal to back a major loan.

While this might precipitate a clash on Capitol Hill with supporters of sanctions, Pretoria could undercut its opponents by persuading "homelands" to release all political prisoners.

Diplomats suggest that this is precisely the message Mr Bush conveyed to President de Klerk in telephone talks last week

The IMF delegation will be headed by M Guitrain, deputy director of the European department.

It will meet Minister of Finance Barend du Plessis, Governor of the Reserve Bank Chris Stals, and a cross-section of Government officials and private sector personalities

FM 19|9|91

DEVELOPING COUNTRIES

HOW TO GROW

156

Improved saving and investment performances in developing countries could lead to growth of over 3% a year from 1993, argues the IMF's latest *World Economic Outlook*

In the Eighties, developing countries that relied on external borrowing to augment domestic savings (like Zambia, Somalia and Nicaragua) were struck by higher interest payments and saw investment and growth drop dramatically Countries with high savings rates (Botswana, Cyprus and Malaysia,

FM 19|9|91 **ECONOMY & FINANCE**

156

for example) tended to show higher investment, stronger growth, lower inflation and less reliance on foreign borrowing

Foreign finance can assist development only if it stimulates sufficient growth to repay the loans and that requires removing impediments to local investment "In a situation of high inflation, volatile real interest and exchange rates, fiscal deficits and other macro-economic imbalances, investors are likely to postpone investment plans because of pervasive uncertainty"

Reducing economic distortions, instability and inefficiency also stimulates savings, as the experiences of Korea, Sri Lanka and Taiwan show "On balance, it appears that a financial environment characterised by positive real interest rates, an efficient system of financial intermediation and a structure of taxation that does not discourage private saving offers the best prospect of increased savings, investment and improved allocation of financial resources"

The IMF adds, however, that failure to reach agreement at the Uruguay Round of trade talks could harm developing countries' growth prospects, by depriving them of the benefits of trade liberalisation and increasing trade friction ■

Govt 'under fire' during IMF visit

-156-

CT 22/7/91

Own Correspondent

JOHANNESBURG. — Government expects to come under fire from the IMF team visiting SA for the next two weeks for off-budget spending and an "ad hoc" approach to fiscal policy

The April announcement of R1bn in additional social spending not included in this year's Budget, and the previous year's transfer to the Independent Development Trust, are to come under special scrutiny.

Another topic expected to dominate discussions is inflation. Finance officials expect the IMF to express deep concern at the persistent high level of inflation, in spite of a protracted period of high real interest rates

Finance officials due to meet the team expect a less favourable report than the one drawn up after last year's visit, when economic policymakers were praised for tight fiscal and monetary policies

While SA is under no obligation to implement IMF suggestions or to respond to criticisms, government is becoming increasingly sensitive to the organisation's views.

A new feature of the visit will be a special report on the country's social spending, including international comparisons, affordability and an analysis of financing options

A TIMES MEDIA PUBLICATION

IMF visitors expected to frown on govt's ad hoc financial approach

B/Day 22/7/91

156

GRETA STEYN

GOVERNMENT expects to come under fire from the IMF team visiting SA for the next two weeks for off-budget spending and an "ad hoc" approach to fiscal policy.

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Finance officials due to meet the team expect a less favourable report than the one drawn up after last year's visit, when economic policymakers were praised for tight fiscal and monetary policies. While SA is under no obligation to implement IMF suggestions or to respond to criticisms, government is becoming increasingly sensitive to the organisation's views.

A new feature of the visit will be a special report on the country's social spending, including international comparisons, affordability and an analysis of financing options.

In its previous report on SA, the organisation said the country might have to go slow on tax reform if government wanted to avoid deficit financing of development spending. It could place more emphasis on that view after this year's visit, possibly jeopardising plans to reduce individuals' top marginal income tax rate to 40%.

Finance spokesmen have denied speculation that the visit could be a prelude to the lifting of the Bretton Woods amendment and an immediate IMF loan, saying SA would have to run a deficit on the current account of the balance of payments to qualify. However, SA could argue that its foreign debt commitments have forced it to generate an "artificial" surplus which put a damper on growth. Monetary officials acknowledge this approach has been discussed, but they say SA would still prefer longer-term finance from the World Bank to short-term BoP assistance from the IMF.

The International Finance Corporation, a World Bank subsidiary which provides commercial loans, has openly campaigned for SA to be "reclassified" to qualify for loans. SA's per capita income is still too high to qualify for the usual World Bank finance, and the bank is apparently reluctant to move too fast for fear of being seen to assist the present government.

The IMF's approach to its visit, or Article IV consultations, is to deal with the government of the day. It has asked government to set up meetings with the ANC and Cosatu. By the end of last week, the meetings with these organisations had not been finalised

Cosatu talks with IMF 'in jeopardy'

156

CT 23/7/91

Own Correspondent

JOHANNESBURG — The IMF's planned discussions with Cosatu are in jeopardy after the trade union movement declined the government's invitation to meet the visitors

Cosatu wants the IMF to deal directly with it and not to use the government as an intermediary The IMF, whose scrutiny of the South African economy begins today, usually deals only through governments The team arrived yesterday for a two-week visit

A Cosatu spokesman said yesterday that the movement had no objection to speaking to the IMF if approached directly It had informed the Finance Department of this in a letter declining its invitation He added that Cosatu had not yet received a direct approach from the organisation IMF officials could not be reached for comment

A source said it was unlikely that the IMF would change its worldwide policy of dealing with governments to deal directly with Cosatu and the ANC

An ANC spokesman said yesterday that no decision had yet been made on whether the organisation would meet the IMF The ANC and Cosatu had discussions with World Bank officials on their recent missions to South Africa, as the bank does not have the same policy as its sister organisation

The labour market forms an important part of the IMF's analysis of the economy here This is apparent from the organisation's preliminary questions circulated among government officials

It aims to look at trends in union membership and wants to know to what extent increased unionisation has had an effect on wage settlements and the narrowing of wage differentials It will also analyse developments in unit labour costs, "including the impact of wage increases and of factors affecting productivity" It wants to know which factors have kept inflation high and what the outlook is for employment and growth in the labour force

● A conference on IMF-World Bank policies in Africa will be arranged at the weekend by the Institute for African Alternatives (IAA) — known for its criticism of the two bodies

Cosatu talks with IMF in the balance

156 BDay 23/7/91

THE IMF's planned discussions with Cosatu are in jeopardy after the trade union movement declined government's invitation to meet the visitors

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A source said it was unlikely the IMF would change its worldwide policy of dealing with governments to deal directly with Cosatu and the ANC.

An ANC spokesman said yesterday that no decision had yet been made on whether the organisation would meet the IMF. The ANC and Cosatu had discussions with World Bank officials on their recent missions to SA, as the bank does not have the same policy as its sister organisation.

GRETA STEYN

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The head of the IMF mission to SA, Manuel Guitan, is expected in the country only at the weekend. His arrival will coincide with a conference on IMF/World Bank policies in Africa, arranged by the Institute for African Alternatives (IAAF) — known for its criticism of the two bodies

IAAF director Ben Turok is expected to argue that finance from these organisations would cause more harm than good.

IMF gives India $220m emergency loan

Bday 24/7/91

156

WASHINGTON — The IMF said on Monday that it had granted India a $220m emergency loan.

The credit is a vote of confidence by the IMF in India's ability to carry out painful economic reforms and should help the cash-strapped country avoid defaulting on its more than $70bn in foreign debt.

New Delhi faces a credit crunch because a collapse in its trade with the Soviet Union and the financial fallout from the Gulf crisis has brought its long-term economic problems of a burgeoning budget deficit and foreign debt to a head.

The IMF said that India had had to pay more for imported oil and had lost revenues from expatriate workers who fled the Gulf since Iraq's invasion of Kuwait last August.

The World Bank was expected to follow up the credit with its own yesterday, for about $150m, officials said — Sapa-Reuter.

LABOUR

Cosatu wary of IMF's 'tarnished reputation'

156

WM 26/7/91 - 1/8/91

By FERIAL HAFFAJEE

THE Congress of South African Trade Unions' refusal of government's invitation to meet the International Monetary Fund signals its deep suspicion of international financial institutions

In a report tabled at the federation's national congress this week, Cosatu general secretary Jay Naidoo comments that "if the activities of the IMF and the World Bank in other countries are any indication, their proposals will not meet our people's needs and will hit the working class in particular".

Cosatu's Neil Coleman said the federation had turned down government's invitation because Cosatu was an independent organisation which should be approached independently by the IMF.

But IMF policy is to meet only governments, according to the finance ministry, which is co-ordinating the IMF mission. To date, Cosatu has not been approached by the IMF.

Cosatu was likely to discuss its future relationship with the IMF and the World Bank at this week's congress, said Coleman "There is concern in Cosatu about the IMF dictating economic policy to African countries," he stressed, adding that Cosatu's proposed investment code was likely to run counter to IMF policy in Africa.

He also said the federation would be guided by the Organisation of African Trade Union Unity (Oatuu), which has set up an alternative programme to that of the IMF.

Reports this week suggested the IMF was interested in discussing with Cosatu the effects of increased unionisation on the wage settlements and wage differentials. It would also investigate the impact of wage increases and the factors inhibiting productivity.

Ben Turok, director of the Institute for African Alternatives and noted critic of the IMF and World Bank, said the IMF was clearly attempting to assess the strength of the South African labour movement.

He warned that IMF policy in Ghana and Zambia had forced governments to "put the squeeze on strong trade unions". In addition, the fund typically demanded public service job cuts as a way of reducing state expenditure

Cosatu's stance on the IMF is linked to the fund's historical closeness to South Africa. The IMF gave a loan to South Africa in 1976, just five months after the Soweto uprising.

Vishnu Padyachee, of the Institute for Social and Economic Research at the University of Durban-Westville, said the IMF had helped to placate South Africa's foreign bank creditors in the aftermath of the Soweto upheavals. "The IMF played an important role in supporting the apartheid state," he added.

In an exclusive interview with *The Weekly Mail*, Oatuu secretary general Hassan Sunmonu, who is delivering a keynote address at the Cosatu congress, said the IMF's reputation in Africa was tarnished.

He said that far from providing financial relief, the IMF was responsible for bankruptcy of many African states.

The IMF set structural adjustment programmes for all countries it helped, but imposed the same regime for every African economy. "It's a quack doctor," he said, "prescribing the same medicine for different illnesses"

The five typical features of the fund's programmes in Africa were currency devaluation, public service retrenchments, dropping of government subsidies, trade liberalisation and privatisation

Sunmonu said currencies had been devalued by up to 300 percent in countries such as Ghana and Nigeria. Public services in many African states had been slashed by almost half, with disastrous results for health and education

By insisting on the removal of state subsidies on food, fuel, education and housing, the prices of these commodities had rocketed, Sunmonu claimed Many local industries had been destroyed by IMF-imposed trade liberalisation.

Oatuu's alternative adjustment programme was "people-centred rather than balance of payments-centred", he concluded.

Cosatu slams IMF over govt dealings

GRETA STEYN

COSATU has criticised the IMF for dealing formally with government and for the secrecy surrounding its reports on the SA economy

The IMF met Cosatu yesterday after issuing a direct invitation to the trade union movement

The fund waived its traditional policy of dealing only through governments after Cosatu and the ANC had declined invitations issued by the Finance Department

Cosatu objected to the formal nature of the IMF's consultations with government while its own discussions with the IMF were informal BDay 2/8/91

The trade union movement said in a statement it had asked the IMF to explain the nature and extent of their consultations with the SA government

"In particular, the IMF was asked to clarify its role in the development and implementation of the VAT system," the statement said 1991 156

The Cosatu delegation outlined very briefly the economic policy developments within its structures

Cosatu made it clear to the IMF delegation that it would oppose any negotiation of structural adjustment packages or loans unless Cosatu and other representative organisations were party to the negotiations

The IMF delegation set out the requirements of confidentiality imposed by the IMF board

"Cosatu understands but does not accept that IMF reports should be given only to the SA government"

Cosatu tackles the IMF

JOHANNESBURG — The International Monetary Fund delegation has been asked by the Congress of South African Trade Unions to disclose the extent of its negotiations with the government

After meeting the IMF yesterday, Cosatu said it had asked that the IMF clarify its role in determining the VAT system

156

It also said it would oppose negotiations for loans and other packages unless it and other representative bodies were made party to these

It would also oppose packages considered by Cosatu not to be in the interests of the masses — Sapa

CT 2/8/91

Salary hikes of 25% for IMF, World Bank chiefs

(156) (336)

WASHINGTON — The IMF and World Bank last week agreed to increase the annual salaries of their top executives by more than 25% to $285 000, sources at the two organisations said.

The US and Canada objected to the $60 000 increase as excessive but were overruled by other members of the IMF and World Bank boards in separate votes, they said. Washington and Ottawa argued for a pay increase closer to the 16% rise in the cost of living since the last wage hike three years ago. That would have translated into an annual salary of between $260 000 and $270 000. BDay 5/8/91

Several sources said IMF MD Michel Camdessus was the driving force behind the pay raise. World Bank president Barber Conable steps down at the month-end and will not be affected by the decision.

The sources said Camdessus wanted his pay to match that of Jacques Attali, another Frenchman who heads the European Bank for Reconstruction and Development in London. That bank, set up to aid Eastern Europe, began operations earlier this year.

The pay of IMF and World Bank staff is tax-free for foreigners although US citizens pay tax.

Camdessus was abroad and unavailable for comment. An IMF spokesman declined comment.

☐ The IMF last week announced the appointment of Spain's Finance Minister Carlos Solchaga Catalan as IMF interim committee chairman, Sapa-AP reports.

The 22-member committee meets twice a year on fund policy, representing the 155-member governments. The 155 members of the board of governors meet only once a year. Solchaga will succeed Canadian Finance Minister Michael Wilson, who resigned in April. — Sapa-Reuter.

IMF help needed to expand foreign trade

Business Staff (156) 6/8/91 ARGUS

JOHANNESBURG. — The expansion of South Africa's external trade would require the restoration of its rights as a member of the International Monetary Fund and the World Bank, Minister of Trade and Industry Dr Org Marais said here

Speaking at the plenary session of the 11th Ministerial, Economic and Technical Co-operation Conference between South Africa and the Republic of China (ROC) yesterday, Dr Marais said strong impetus for this expansion was provided in the form of the changing political circumstances in South Africa

The end of the Cold War had also created an opportunity for new initiatives to establish trade relations with the countries of central and eastern Europe, Africa and the world

"We have already signed trade agreements with some of the central European countries while further agreements are being finalised."

He added that excellent progress had been realised in the broadening of trade links with African countries and "it would be safe to say that few, if any, African countries do not trade with South Africa at present and this trade is growing"

Dr Marais said that although South Africa was on the road towards the complete normalisation of its trade relations internationally, it would not turn away from allies who had stood by it in the most difficult times.

The ROC had been one of South Africa's "staunchest allies".

The Economic and Technical Co-operation Agreement with the ROC had been signed in 1975. Two-way trade had increased from R40,3 million in 1974 to R3,3 billion in 1990.

Star 1/8/91 (156)

First steps towards full IMF status

MOSCOW — The Soviet Union and the International Monetary Fund have agreed that technical co-operation should be Moscow's first step towards full membership of the world's major financial institutions, a senior Soviet banker said yesterday

Oleg Mozhayskov, head of the hard currency department at the Soviet central bank, said agreement had been reached during a recent visit by IMF and World Bank delegations

Leaders of the Group of Seven offered Moscow associate IMF status at a meeting with President Mikhail Gorbachev in London last month.

This would make it eligible for IMF advice on market-oriented reforms for the Soviet economy.

"We are not talking about money but about technical aid," Mr Mozhayskov said.

● A four-year plan to convert 600 Soviet defence plants into factories making consumer goods such as refrigerators, TV sets and videocassette recorders was announced yesterday. — Sapa-Reuter-AP.

' killer insane

woman pregnant with a demon being hunted by a man.

Govt under fire from IMF mission

(156) CT 8/8/91

From GRETA STEYN

JOHANNESBURG. — Government came under fire from the recent IMF mission to the country for departing from long-term economic strategies for political reasons.

Sources said economic policymakers had expected the points of criticism in the IMF's draft report on the economy The report, which is updated annually, will be finalised in Washington

They said that despite the criticism, the overall thrust of the report was positive, with the IMF actually stating it had been "impressed" by some developments

On the plus side, the IMF praised the Reserve Bank's tight monetary policy It also reiterated its belief that financial sanctions were harming the SA economy.

The IMF's main question was on the sustainability of certain economic measures The "kick-start package, of which tax breaks for exports is a major feature, was criticised Specific criticism was also levelled at the politically inspired decision to sell the strategic stockpiles to finance social upliftment. The R220m poverty safety net was also described as a short-term, unsustainable measure

The IMF wants government to show greater commitment to its overall long-term economic goals These include reducing the size of the public sector and increasing its efficiency, privatisation, equal treatment of taxpayers, limiting tax concessions and simplifying the tax system

However, the organisation echoed this year's Budget speech in saying that the key issue facing SA was balancing welfare augmentation with the no less urgent need for faster economic growth

The IMF mission to SA was accompanied by heightened expectations of new foreign finance But even if the law that will cause the US to veto any SA application for finance goes, SA can apply only once its current account has slipped into deficit World Bank finance would require a reclassification of SA's position to a recipient country as opposed to a donor

But even though there will be no finance forthcoming from the two organisations for quite some time, government wants them to become involved in SA's economic development It is not forced to follow their advice but has decided to be guided by them.

IMF team reprimands govt

BDay 8/8/91.

GREETA STEYN

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156

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To Page 2

IMF

BDay 8/8/91

156

From Page 1

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IMF help needed to expand trade

156

Finance Staff

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Speaking at the plenary session of the 11th Ministerial, Economic and Technical Cooperation Conference between South Africa and the Republic of China (ROC), Dr Marais said strong impetus for this expansion was provided in the form of the changing political circumstances in South Africa

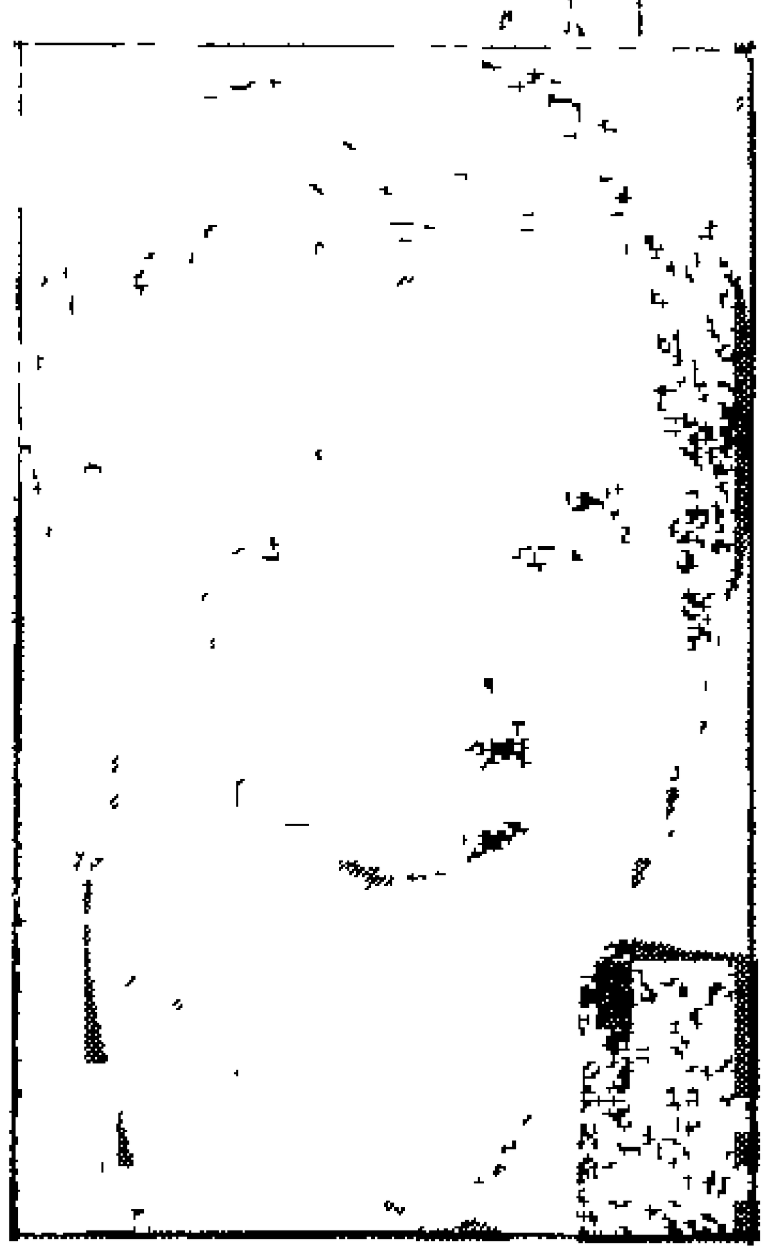
The end of the Cold War had also created an opportunity for new initiatives to establish trade relations with the countries of central and eastern Europe, Africa and the world.

"We have already signed trade agreements with some of the central European countries while further agreements are being finalised."

He added that excellent progress had been realised in the broadening of trade links with African countries and "it would be safe to say that few, if any, African countries do not trade with South Africa at present and this trade is growing".

Dr Marais said that although South Africa was on the road towards the complete normalisation of its trade relations internationally, it would not turn away from allies who had stood by it in the most difficult times

The ROC had been one of South Africa's "staunchest allies"



Dr Org Marais . "Few, if any, African countries do not trade with South Africa at present."

The Economic and Technical Cooperation Agreement with the ROC had been signed in 1975 Two-way trade had increased from R40,3 million in 1974 to R3,3 billion in 1990.

"I believe that this agreement between our countries can be singled out as an example of an exceptionally successful bilateral partnership"

The partnership had blossomed at a time when both South Africa and the ROC were isolated in the world

Dr Marais warned that the increasing possibility of the ROC's accession to the General Agreement of Tariffs and Trade (GATT) might require both the RSA and the ROC to reconsider the issue of exchanging preferential tariff quotas

"This may, therefore, be a problem with no easy solutions at hand"

However, he said he believed relations between the two countries could enter a new phase of greater cooperation with regard to investment and undertakings in the industrial sector

Frelimo moots final break with Marxism

B Day 14/8/91.

MAPUTO — A congress of Mozambique's ruling Frelimo Party yesterday discussed proposals for a new structure that would break completely with its Marxist-Leninist past

A report from the party's Central Committee, presented by President Joaquim Chissano in Maputo on Monday, called on the 700 delegates to abandon "democratic centralism", the Leninist principle that has been Frelimo's cornerstone

There had been "excessive centralism", leading to passivity among the rank and file and dependence on instructions from the party leadership Chissano said

"Now we need to broaden and develop democracy inside the party," he said, adding that divergent opinions had to be tolerated

Frelimo dropped its Marxist label at its last congress in 1989 and has been seeking a political identity before the country's first multiparty elections, planned for next year

The government last week cut short a round of peace talks with rightwing rebels without making progress towards ending a civil war in which a million people have been killed since 1976

Under the changes Chissano, who is Frelimo leader as well as head of state, would remain party president This would be symbolically important because the popular reformist is considered to be Frelimo's greatest electoral asset

The Soviet-style Politburo would be renamed the Political Commission and would concentrate on broad political issues and the party's electoral strategy

The document for the first time defines Frelimo as a "democratic socialist party" committed to humanist values and to ending "authoritarian phenomena" — Sapa-Reuter

Angolan peace commission to discuss PoWs

B Day 14/8/91

LUANDA — Angola's joint peace commission is due to meet on Monday to discuss the release of hundreds of prisoners of war held by Unita and the government

Official sources said the meeting of the joint political and military commission, set up after the end of Angola's civil war in May, would discuss Unita's failure to present to the Red Cross on Saturday prisoners who, it says, want to remain at its Jamba headquarters in the south

About 326 of the estimated 1 500 prisoners of war have been released so far by the two sides under the peace agreement

The commission said Unita should present those prisoners to it and the Red Cross, after allegations that it was forcing them to remain at Jamba — Reuter

IMF praises Uganda's economic recovery

KAMPALA — The IMF yesterday praised Uganda's economic recovery in recent years, but said further reform was necessary

A fund official, speaking before a Ugandan visit today by IMF MD Michel Camdessus, said the economy had responded well to IMF-backed reforms launched in 1987

But further efforts were needed in a country still plagued by security problems, poor industrial infrastructure and shortages of labour and hard currency

"The objectives are to reduce inflation to 15%, achieve annual growth rate of 5% and to strengthen the balance of payments position," he said

The official, who declined to be named, said Uganda was the first stop on a tour which would also take Camdessus to Tanzania and Kenya next week

B Day 14/8/91.

Austerity

156

A decade of industrial neglect in Uganda, much of it under dictator Idi Amin, and a five-year bush war which brought current president Yoweri Museveni to power in 1986, has shattered the once-prosperous country's economy

Under an austerity programme backed by the IMF, World Bank and international donors, Uganda has cut its inflation from 240% in the financial year 1987/88 to 29%

Growth has recovered to an average 6% annually in recent years, having declined at an average rate of 2,8% a year between 1965 and 1989

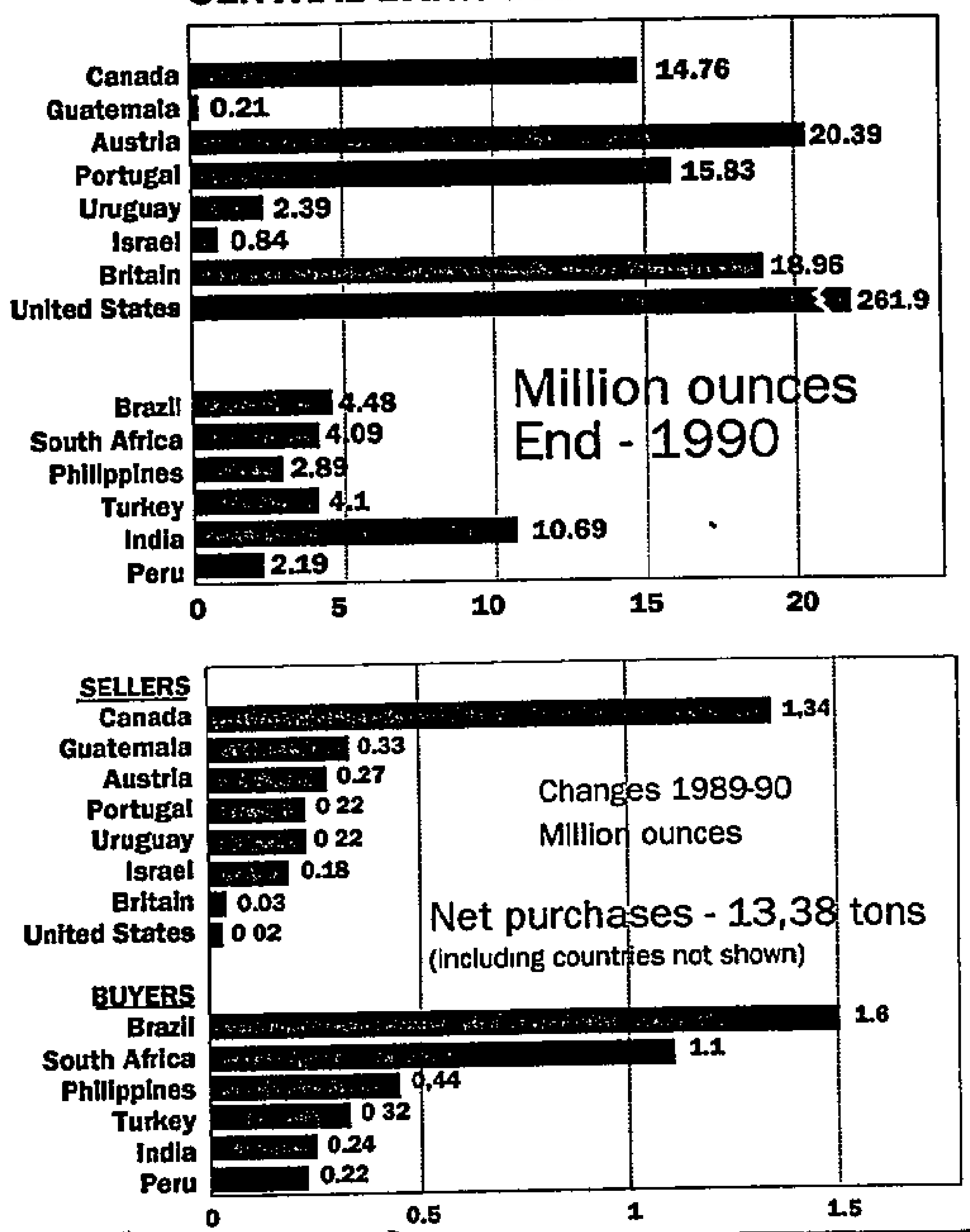
But the IMF official cautioned that Uganda was likely to continue to suffer shortages of hard currency because of low coffee prices Coffee is the country's main foreign exchange earner, accounting for 95% of total export income

Government officials estimate Uganda has lost $250m a year since the collapse of an International Coffee Organisation quota pact in 1989 — Sapa-Reuter.

World banks bump up gold reserves

Star 19/8/91

CENTRAL BANK GOLD HOLDINGS



By Sven Lunsche 156

Official International Monetary Fund figures on central bank gold holdings indicate that the world's central banks bought a net 13,4 tons of gold in 1990

This seems to contradict the many theories that ascribe the current depressed gold price to the vast overhang of gold reserves in the vaults of central banks and to the sporadic selling of substantial amounts of these reserves in the past few year by indebted countries

However, Jessica Jacks, economist with UK mining giant RTZ Corporation, argues that the IMF statistics are only the tip of the iceberg and that the official sector still remains the largest "swing factor" in the gold market

In an article in the latest Gold Mining Newsletter Ms Jacks says key transactions by central banks are not reflected in the IMF statistics

A rise or fall in reserves reported by the IMF, does not alway imply an outright purchase or sale and in many cases these positions are neutralised by an equal sale or purchase only months later

Furthermore, central banks gold swops, which consist of a spot sale executed with a simultaneous forward purchase of equal quantity, would not influence the overall analysis of central bank activity but has a major impact on the market

"Some of the most sizeable central bank transactions are also not reflected in IMF figures, simply because the activity may not involve the transfer of bullion in or out of official reserves

"The gold purchased by the Japanese authorities initially for the Hirohito coin in 1986 and more recently the Akihito coin, are good examples

"For 1990, the 70 tons bought for the Akihito coin are included as a central bank purchase, but will be reflected as sales once the coin is launched"

These purchases easily offset the sales seen by Canada, Israel and other countries, with a net result that central banks were buyers of gold last year to the tune of 50 tons

However, this figure does not account for any central bank bullion that may have entered of left Iraq or Kuwait throughout the Middle East conflict

Finally, official statistics do not account for the official sector's gold leasing or lending, which has a significant impact on the market, Ms Jacks says

Major seeking urgent G-7 aid for Moscow

B/Day 27/8/91

LONDON — British Prime Minister John Major flies to the United States tomorrow to try and narrow differences in the Group of Seven (G-7) democracies on how best to help rescue the Soviet economy, according to diplomats

Major, chairman of the G-7, has also arranged for talks to be held with officials of the group in London on Thursday

Diplomats said the differences within the G-7 countries followed Soviet President Mikhail Gorbachev's historic appearance at the group's annual summit in London in July

The US and Japan were cooler to the idea of large-scale assistance than were the Europeans, who felt more threatened by potential Soviet turmoil The US wanted firm evidence of reform, including cuts in defence spending

Major, who also wanted cuts in defence spending and said aid should depend on reforms, seems convinced that communism is dying following events of the past week

He is now likely to back emergency food aid a quicker flow of technical know-how to help the key petroleum and wheat-growing sectors, and full Soviet membership of the International Monetary Fund (IMF) and the World Bank

The G-7 proposed only associate status for Moscow in those financial institutions and provision of economic expertise, not money

'I think there is a good case now for full Soviet membership," Foreign Secretary Douglas Hurd said on Sunday

Thursday's London talks will be of the G-7 "sherpas" — so called because, like Nepalese mountaineers, they prepare for gatherings of the summit

They take no decisions themselves but put up policies to heads of governments and ministers

Diplomatic sources from one participating nation said they expected food, technical aid and the IMF to top the agenda Sherpas could also consider a reaction to any future Soviet request for help to alleviate the burden of a $60bn debt

156 Food supplies

Italy says it wants special IMF help for Moscow from the IMF/World Bank annual conference in Bangkok in October

Such is the state of flux in the Soviet Union that some analysts think Bangkok might be the earliest opportunity for the West to make practical decisions on aid other than emergency food supplies

Britain is also likely to argue at a European Community (EC) foreign ministers' meeting in Brussels tomorrow that the EC should wait for Moscow to complete negotiations with the Baltic republics before it gives them diplomatic recognition

One of Hurd's foreign office ministers, Douglas Hogg, is to visit Lithuania, Latvia and Estonia this week — Sapa-Reuter

Africa may be let off financial hook

ARG 6/9/91

MICHAEL CHESTER
The Argus Correspondent

JOHANNESBURG. — Proposals that international banks should cancel the multi-billion rand mountain of foreign debts that burden Africa have been backed by the South African Chamber of Business.

The proposals that Africa should be released from official debt obligations — as Poland and Egypt had been — were first put forward by United Nations Secretary-General Javier Perez de Cuellar last week

Wider support for the proposals was urged in Maputo today by Sacob deputy director-general Mr Ron Haywood when he addressed a conference on closer co-operation among Southern African nations in a post-apartheid era.

Mr Haywood said it was costing Africa up to R66 billion a year just to pay service charges on loans

The World Bank and the International Monetary Fund were now taking a closer interest in the continent and were enforcing greater financial discipline

Release from debt burdens would have an immediate positive impact on economic development, he said

There was enormous potential to increase inter-regional trade and Africa's total exports, which at the moment accounted for only four percent of world trade.

It was critical to reach closer co-operation in the financial sphere and to raise investor confidence with evidence of civil order, overall stability and trustworthy laws

Mr Haywood welcomed suggestions that some form of Southern African Financial Investment Corporation should be created to channel funds into the cross-border co-ordination of joint ventures

An important lead had already been taken by the Development Bank of Southern Africa, which so far had committed R5,8 billion to 760 projects — and had another 540 projects totalling R4,2 billion under consideration

There was also innovative new thinking among commercial and merchant banks as businesses resumed operations internationally and encountered complex financial regulations, disciplines and restraints in neighbouring states

It was crucial that Southern Africa laid the foundations to inspire banks and businessmen with confidence

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NEWS

Sacob backs call to scrap Africa's debts

156

Star 6/9/91

By Michael Chester

Proposals that international banks should cancel the multibillion-rand mountain of foreign debts that burden black Africa have been backed by the South African Chamber of Business.

The proposals that black Africa should be released from official debt obligations — as Poland and Egypt have been — were first put forward by United Nations Secretary-General Javier Perez de Cuellar.

Support for the proposals was urged in Maputo yesterday by Sacob deputy director-general Ron Haywood when he addressed a conference discussing closer co-operation among the nations of southern Africa in a post-apartheid era

Mr Haywood said it was costing black Africa $23 billion (R66 billion) a year just to pay service charges on loans

Both the World Bank and the International Monetary Fund were now enforcing greater financial discipline.

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There was enormous potential to increase Africa's total exports — which at the moment accounted for only 4 percent of world trade

But it was critical to reach closer co-operation in the financial sphere, and raise investor confidence with evidence of civil order, overall stability and trustworthy laws.

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It was crucial that southern Africa laid the foundations to inspire banks and businessmen with maximum confidence, he said.

IMF expects modest world upturn next year

(156)

Star 10/9/91.

WASHINGTON — The International Monetary Fund expects the world economy to emerge from its worst performance in nearly a decade and stage a modest recovery next year, diplomats say

The fund forecasts that world economic growth will accelerate to close to three percent next year after dropping to about one percent in 1991

Lower interest rates and oil prices should help spur the recovery from this year's slump, which was triggered by the financial fall-out of the Gulf crisis, particularly the sharp rise in oil prices that followed Iraq's invasion of Kuwait

US recovery

The global rebound will be paced by a recovery in the United States, where the economy is expected to expand by about three percent next year after contracting slightly in 1991

The new forecast will be officially released in the middle of next month just before the IMF-World Bank annual meeting in Thailand.

IMF staff appear confident the US recovery is sustainable and a double-dip recession — where the economy deteriorates again after a brief upturn — is unlikely.

But some private economists are not so sure and believe that further interest rate cuts are needed to keep the US economy moving ahead

An economic rebound in the United States, Canada, Britain and some other industrial nations should be enough to offset slower growth in Japan and Germany.

The IMF expects growth in Japan to slow to slightly under four percent next year from slightly over four percent this year and in the former West Germany to about two percent from three percent or more

Reliable economic figures for the former East Germany are not available yet.

Despite the faster growth, the IMF apparently does not expect a big pick-up in inflation next year.

The world economy should also benefit next year from a strong economic rebound in the Middle East as the region recovers from the Gulf War

Growth in Latin America and the Caribbean is also expected to pick up as countries garner benefits from efforts to reform their economies and make them more efficient.

Eastern European economies are likely to stabilise next year after slumping this year and last

However, the Soviet Union will probably show a further fall in output in 1992 — Sapa-Reuter.

BU

IMF expects world upturn

B/Day 10/9/91

WASHINGTON — The International Monetary Fund (IMF) expects the world economy to emerge from its worst performance in nearly a decade and stage a modest recovery next year, diplomats said

The IMF is forecasting that world economic growth will accelerate to close to 3% next year after dropping to about 1% in 1991, they said.

Lower interest rates and oil prices should help spur the recovery from this year's slump, which was triggered by the Gulf crisis, particularly the sharp rise in oil prices

The global rebound will be paced by a recovery in the US, where the economy is expected to expand by about 3% next year

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Hugh Roberton reports on the US sanctions debate

Star 12/9/91

156

Lame excuse could hurt SA

WHATEVER the reasons might have been for President de Klerk's rejection last week of ANC president Nelson Mandela's appeal for action to ensure the release of political prisoners in Bophuthatswana, it is hard to believe that they could have outweighed the consequences that his intransigence may hold for South Africa's relations with the US

Mr de Klerk has spurned reasoning, diplomacy, humanitarian appeals and warnings of retribution on this issue, and the only explanation the world has been offered for his stance is the limp claim that his Government has no jurisdiction in Bophuthatswana

In Washington that sounds about as convincing as a bank manager claiming he has no influence over his clients Every mentally competent South African knows, as do most informed Americans, that whether or not Pretoria has jurisdiction over Bophuthatswana, it undoubtedly has the influence necessary to accomplish what Mr Mandela, President Bush, the US Senate and many well-disposed people around the world have asked it to

It is possible that Mr de Klerk has assumed, rightly in a very limited context, that there is no chance of sanctions being reimposed and that the US Senate's intrusion on the internal affairs of another country can thus be dismissed with impunity

If this is so, he is naively misguided The debate on South Africa has reached a turning point in the US, eloquently summed up by Congressman Stephen Solarz when he said sanctions were "yesterday's issue" and added "The real question now is where do we go from here?"

The alternative he put forward, and which is now under active consideration in both houses here is a massive aid package for South Africa, large enough to finance an "historic turning point" in the country's development It requires no imagination to realise that there will be no such package if the US Senate's concerns about political prisoners are not addressed

Furthermore, the Senate is soon to review legislation to greatly increase the US contribution to the IMF Sanctions prohibiting IMF loans to South Africa are still in place and the coming debate would thus provide an easy opportunity for the painless introduction of tighter restrictions to pre-empt any move by President Bush to unilaterally lift the IMF restriction — something he could do under the existing Gramm Amendment

Right now the US is tenuously disposed to Mr Solarz's vision, but ahead lies the monumental task of helping to build democracy and free enterprise on the ruins of the Soviet empire, and just as Mr Mandela has to learn that foreign investment and foreign aid are scarce and likely to become scarcer, so does Mr de Klerk — Star Bureau, Washington □

ZIMBABWE 156

Restructural rethink

FM 27/9/91

Harare is awash with rumours about the likely recommendations of three teams of visiting bankers and economists from the IMF, World Bank and African Development Bank. Not surprisingly, they are reportedly deeply split over how tough they should be in imposing new conditions on President Robert Mugabe's government.

Evidence that all is far from well is widespread. After falling 12% in August, the Zimbabwe dollar slumped 7% in the week to September 20. Tobacco prices have eased and are now averaging a good Z$4/kg less than at the end of August

Trade figures, released mid-month, show imports up 60% last year and, while there is some scepticism about the accuracy of the trade statistics, it is quite clear that a serious foreign exchange crisis has arisen. Which is why rumours of tough IMF conditions are

continue →

FM 27/9/91

sweeping the capital. British Foreign Secretary Douglas Hurd who swung through Harare earlier in the month to urge Mugabe to cool the rhetoric on SA sanctions at next month's Commonwealth Conference, made little secret of how Whitehall sees aid to Zimbabwe. No World Bank agreement, no UK aid, was the Hurd message

According to the rumour mill, Zimbabwe is negotiating for a US$400m IMF loan, which will be agreed only if Harare is prepared to cut government spending, reduce the civil service and push up interest rates. The signs are that a reluctant Zimbabwe government will agree to the fund's terms, since there is no viable alternative

Zimbabwe has borrowed heavily in recent months to finance rapidly rising imports now allowed on open general licence Exports, other than tobacco, are severely depressed and there is no reason to expect any improvement in the foreign currency situation until the aid promised at the Paris donor meeting in March starts to flow That — as Hurd warned — will not happen until Zimbabwe signs on the dotted line with the World Bank and possibly also the IMF It's a bleak situation.

Ministers seem at a loss to know what to do. Early this month interest rates were pushed up by 2,25 percentage points in the case of prime bank loans, but almost all deposit rates remain substantially negative to the tune of 8%-10%.

Some officials complain that Ministers are too preoccupied with the forthcoming Commonwealth summit in Harare to make crucial decisions on the economy Certainly Mugabe seems fixated with the details of the summit, rather than economic management which, to be fair, has never interested him greatly.

Economists warn that, even if the World Bank and IMF can patch up a deal with government, aid funds will start flowing only next year, implying that foreign exchange will remain short for the next six months and probably a good deal longer. Against this background, it is doubtful whether Harare can meet the structural adjustment programme targets There is even speculation that the country will have to rethink the entire programme before seeking substantially increased aid from Western donors in Paris early next year. ■

WORLD

IMF skills but not money for Soviets

B/Day 30/9/91 (156)

WASHINGTON — The IMF has decided to allow the Soviet Union to become a special associate, and draw on the organisation's expertise in overhauling its battered economy, a source said last week.

Now all Moscow has to do is ask for it.

The Soviet Union has applied to join the IMF as a full member, but has not asked to become a special associate.

As a special associate, the Soviet Union would have access to the Fund's technical advice and assistance in moving from communism to capitalism, but not the IMF's money.

Monetary sources said they were hopeful the Soviet Union would ask for the special associate status next week.

"It's going through the channels (in Moscow)," said one source, who declined to be identified.

Once the Soviet Union asks, monetary sources expect the IMF to move quickly to open an office in Moscow so that it has "people on the ground" to help with the onerous task of reforming the country's economy

That would come as good news to US Treasury Secretary Nicholas Brady, who recently chided the IMF for dragging its feet in moving to help the Soviet Union.

Monetary sources saw special associate status as a step towards eventual IMF membership for the Soviet Union.

US officials said Brady was still eager for economic policymakers from the Group of Seven (G7) industrial nations to hold an early meeting to discuss the Soviet economy.

The G7 — Britain, Canada, France, Germany, Italy, Japan and the US — is already slated to meet in October in Bangkok to discuss a variety of topics, including the state of the world economy. The get-together will take place just before the annual meeting of the IMF and World Bank, which is also being held in Bangkok.

Soviet officials, who will be there for the IMF/World Bank annual conference, are likely to attend at least part of the G7 meeting. But Brady wants the G7 to meet before that about the Soviet Union.

Monetary sources said the G7 could get together somewhere in Asia for a discussion about the Soviet Union before their meeting on October 12. — Sapa-Reuter.

Notorious Bangkok snarl-ups face IMF delegates

Bangkok, where the rush hour lasts all day, is getting ready to receive 10 000 delegates to the IMF conference this week. The Star's Finance Editor, Magnus Heystek, will cover the event for the Argus group newspapers.

BANGKOK — Bangkok, a city where it regularly takes an hour to drive a half a kilometre, is attempting the seemingly impossible — making sure that the 10 000 participants to the International Monetary Fund and World Bank conference arrive at their meetings on time

Two extra public holidays have been announced for next Monday and Tuesday, the busiest part of the conference, in the hope that most residents will take a long weekend's break or stay at home

Those who arrive for the earlier briefings, which start on Wednesday this week, will have to pin their hopes on the engineering department of Bangkok's Chulalongkorn University, which was told to map out the shortest and quickest routes to the conference centre through the notorious one-way system

With 500 new cars coming on to Bangkok's streets every day and an average driving speed of 11 km an hour, people in this city talk about the traffic problems in the way the English are supposed to talk about the weather

Investment

But for Thailand's government, anxious to improve its international image after February's military coup and encourage the return of foreign investment, the smooth running of the conference is crucial

Only the most important people will be allowed to travel by car between the 20 or so host hotels and the newly-opened Queen Sirikit Convention Centre where the meetings will take place

The rest will be brought in on shuttle buses, safer at least than a perilous journey on the back of one of Bangkok's hundreds of unofficial motorbike taxis which many use as the quickest way through town

About 6 000 policemen will be drafted in for security and traffic duty and, if the big jam strikes, Chulalongkorn's engineers have worked out a plan to give priority to IMF-World Bank traffic

The city's 2 400 traffic police, about 40 percent of whom are said to suffer from lead poisoning at any one time, are already tightening up on traffic regulations

To add to the challenge, the main road linking the hotels area with the conference centre, the Rama IV road, is being dug up for the construction of a flyover

Building site

Thailand's capital city — whose name means "City of Angels" — is paying the price for a country whose booming economy and economic growth target of 8,2 percent a year has outstripped the upgrading of the city's infrastructure

It resembles a large building site, with 158 office developments due for completion in 1995

The Thai government has warned against rallies and demonstrations during the conference.

Bangkok has recently seen fasts and protests by students over the controversial Pak Moon Dam project in Ratchathani province, on which the World Bank last week delayed a decision on funding A Bank of Thailand spokesman said he was confident the conference would pass off smoothly "unless there is a flood" — South-East Asia's rainy season has just started

— The Independent

Deceptively placid . . . this view of Bangkok, setting for the IMF and World Bank conference, gives no indication of the city's congested streets in which it can take up to an hour to drive half a kilometre.

IMF forecasts robust UK recovery

Star 7/10/91

LONDON — The British economy will make a relatively robust recovery, expanding by about 2,3 percent next year, says a forecast by the International Monetary Fund.

That is a higher growth rate than is expected by all but a handful of private forecasters.

The IMF also suggests that a recovery is already under way and will become visible by the end of the year.

Most economic forecasters say national output will fall by more than 2 percent this year, but the fund says the contraction will be limited to 1,7 percent.

However, the IMF warns that the expansion will not be strong enough to curb unemployment, which is likely to rise from the present 2,43 million to an average 2,7 million — or 9,6 percent of the workforce — for the whole year.

That prediction implies that unemployment could climb to the 3 million mark late in 1992

The IMF prediction will be published in its semi-annual World Economic Outlook this week and may be subject to revisions. But it stands at the most optimistic end of forecasts for the British economy — The Independent.

US could back SA at IMF

SIMON BARBER

SOUTH BEND — The US could vote in favour of an SA application for IMF finance in the first half of next year as part of a determined effort to foster US investment in SA, Assistant Secretary of State for Africa Herman Cohen has predicted

So substantial was progress towards dismantling apartheid, he said, that there was likely to be little hostile reaction from Congress, which had obliged the US to veto SA access to the IMF since enacting the Gramm Amendment in 1983

Cohen was speaking on Monday at Notre Dame university to US businessmen and representatives of the ANC, PAC and Azapo at the start of a conference on US investment in SA

Normalisation of SA ties with the IMF is being strongly urged by US businesses, which see SA access to IMF credit as an important added guarantee of their potential investment in SA

Encouraging US investment in SA was at the top of the administration's SA policy priorities, Cohen said The one contradiction to this policy was the administration's decision not to challenge the constitutionality of state and local sanctions in court

Under the Gramm Amendment, the US executive director on the IMF board must vote the 19% of shares the US holds in the IMF against any loan to SA unless the administration informs Congress that certain conditions have been met. 15b

These are that the facility requested by SA be used to counter economic and social distortions caused by apartheid and that SA must be in genuine balance of payment difficulties Cohen declined to state in detail why the administration might consider these conditions to have been satisfied as early as the first quarter of 1992

But he implied that Pretoria was getting ready to run down the balance of payments surplus it had been obliged to maintain in order to pay off foreign loans after the 1985 debt standstill A key obstacle to US support for IMF loans to SA has been the US Treasury's fear that Congress might react by blocking the administration's request to replenish US contributions to the IMF.

Cohen said he expected Congress to enact the replenishment before the end of the year as part of its 1992 foreign aid Bill

● See Page 3

WORLD TRADE FM 11/10/91.

All figured out (156)

In 1990, total trade of the USSR and other countries that do not report data directly to the IMF, fell by 17,1%, according to an IMF memorandum Their exports were down 2,7% while imports fell by 6%. In the USSR, specifically, exports dipped 1,2% and imports 4,2%

The value of world trade in 1990 rose by 14,6%, after a rise of 8,1% in 1989. However, growth by volume slowed to 3,9% from 7,1% the previous year.

Industrial country trade grew at about the same pace as world trade in 1990 Exports for these countries rose by 15,3% and imports by 14,8%

Trade imbalances among Japan, Germany and the US narrowed further in 1990 The US trade deficit was $5,6bn down, at $123,9bn, Germany's surplus was down by $9bn to $62,8bn, and that of Japan narrowed by $12,6bn to $52,4bn In this period, developing countries' exports rose by 13%, while imports were up 15,3% — their total trade surplus fell to $7,3bn from $22bn in 1989.

The memorandum records also that inflation in industrial countries averaged 4,6% in the second quarter of 1991, after ranging between 4,5% and 5,6% in the preceding four quarters Among major countries for which figures are available:

☐ Germany, 3,1% in the second quarter (compared with 2,3% in the same period 1990 and 2,7% in the previous quarter),
☐ Japan, 3,5% (2,5% and 4,1%);

FM 11/10/91

☐ Canada, 6,3% (4,6% and 6,5%). The increase in 1991 was due to the introduction of the Goods & Services Tax, and
☐ US, 4,6% (4,5% and 5,1%) (156) ■

SA top finance team on its way to IMF

(156) CT 11/10/91

Own Correspondent

JOHANNESBURG — A high-powered South African team, headed by Minister of Finance Mr Barend du Plessis, left yesterday for the IMF and World Bank annual meeting in Bangkok with the message that SA needs international finance soon to get the economy moving

Mr Du Plessis, who will be away for more than two weeks, will address the general meeting and have high level discussions with IMF and World Bank officials

He will be accompanied by Reserve Bank governor Dr Chris Stals, finance director-general Mr Gerhard Croeser, finance deputy director-general Mr Estiaan Calitz and possibly another bank official

After recent hints of reneging on foreign loans by the ANC, Mr Du Plessis is expected to reassure the international financial community that the present government would ensure that loans are honoured and refer them to SA's past record on loan repayments

He will address an investment conference in Hong Kong during his visit

Thailand's govt banishes the poor from view

156

B/Day 11/10/91

Own Correspondent

BANGKOK — The world's top bankers, arriving in Bangkok this week for the annual World Bank/IMF meeting, are to be offered tours of the city's carefully concealed but prolific slum areas in an attempt by activists to show them the darker side of international development policies.

Thailand's military junta, which took power in February's bloodless coup, is anxious to portray "the land of smiles" as a prospering modern country geared and ready for further foreign investment

No expense has been too great temporarily to mask a creakingly inadequate infrastructure and a widening income gap, obvious in Bangkoks's notorious traffic problem, and in its thousands of rural poor who have flocked in recent years to the city's slums

After spending about £60m on the lavish new Queen Sirikit Convention Centre, built especially for the conference, the Thai authorities did not want their image tarnished by the shanty towns next door, and ordered the building of 3m-high walls to hide them from view

The slum dwellers were instructed to spruce up the area with brightly painted murals In other parts of the city centre, the slums have been physically cleared, and the residents banished to the outskirts of the city where they are struggling to make a living.

But the city's poor are determined to be seen, and if possible heard.

"We are living in another world from those bankers from rich countries. Everyone's talking about the money that the country will get from the World Bank To tell you the truth, I don't care The government just wants to build more dams, roads and high-rise buildings, helping the rich people, not the slum dwellers," said slum leader Sunantha Rodprasert — Daily Telegraph.

WORLD BANK/IMF MEETING

Soviet crisis hogs IMF agenda

B/Day 11/10/91. (156)

BANGKOK — The Soviet Union's economic crisis is threatening to drive other key financial issues from the agenda of the World Bank-IMF annual meeting.

Just as the Third World debt crisis hogged the agendas of the two agencies in the 1980s, the task of reviving Eastern Europe and the Soviet Union after the collapse of communism is shaping up as their main task for the 1990s

But IMF managing director Michel Camdessus told a news conference yesterday that the shortage of savings, the fate of world trade talks and Third World debt reduction should also be priorities for the meeting next week

He jokingly suggested a 10% ceiling on questions about the Soviet Union

Lewis Preston, the recently appointed president of the World Bank, the IMF's sister organisation, went out of his way to emphasise that the bank would not lose its traditional focus

"Thailand, Asia and the World Bank's entire membership can be assured that we will not reduce our support to other countries or lose our fundamental purpose of fighting poverty as we take on new responsibilities," Preston said.

Finance ministers and central bankers from the Group of Seven (G-7) industrial countries confer today on how to help the Soviet Union.

The EC and Japan have both unveiled aid packages, but US Treasury Secretary Nicholas Brady said yesterday the G-7 still had no clear idea how to help Moscow avoid financial collapse

The IMF has technical experts in Moscow feverishly collecting the figures the Soviets will need to put their house in order.

When Moscow becomes a full borrowing member of the fund, maybe next year, the IMF will be flush with cash from a capital increase and should have plenty of money to lend to it.

But Camdessus, who has called the task of integrating the Soviet Union into the world economy a challenge, wants to send the message that Moscow is not the only show in town.

Eastern Europe is thirsty for capital East Germany is sucking in investment funds. And the Middle East, mainly Kuwait, needs money to rebuild after the war against Iraq.

All together the IMF estimates these countries will soak up an extra $100bn in capital this year and $80bn a year from 1992 to 1996, and the money has to come from somewhere.

To prevent a damaging rise in interest rates, Camdessus wants the US, Germany, Italy and others to increase the pool of world savings by cutting their big budget deficits.

Deficit reduction would not only free up capital to finance the new world political order, it would help keep interest rates down and boost sluggish world growth, expected to reach just 1,3% this year and 2,8% in 1992

"This issue is possibly the central one at the present time," Camdessus said He wants governments to save money by slashing arms spending and phasing out costly farm subsidies.

In economic terms, the squeeze on savings is more important than Moscow's agony because the Soviet Union accounts for only a tiny part of world trade — Sapa-Reuter

IMF MD Michel Camdessus, followed by journalists, leaves his first news conference in Bangkok yesterday. Picture AP

Barend to put SA case in Bangkok

BDay 11/10/91 (156)

BILLY PADDOCK

A HIGH-powered SA team, led by Finance Minister Barend du Plessis, yesterday headed for the IMF and World Bank annual meeting in Bangkok with the message that SA needed international finance soon to get the economy moving.

But Cosatu general secretary Jay Naidoo immediately warned that without consultation, any attempt to secure loans would incur the wrath of his trade union federation, the ANC and SACP

Du Plessis is accompanied by Reserve Bank Governor Chris Stals, Finance director-general Gerhard Croeser and deputy director-general Estiaan Calitz.

Du Plessis' main purpose is to address the meeting, but he will also have high-level discussions with officials from both organisations Also on the itinerary for his two-week trip are meetings with businessmen and representatives of some of the world's largest banks, and an address to an investment conference in Hong Kong.

High on his agenda will be recent ANC and Cosatu statements on nationalisation, hints of reneging on foreign loans and Cosatu's threat that if government does not enter into negotiations on restructuring the economy with it and other major players, they might cripple the economy

In an interview Du Plessis said international investors should be "fully aware of the importance of predictability with regard to fiscal and monetary affairs, predictability even with regard to company law" They should be reassured that capital would be safe, and that it could make money and be repatriated.

"If we have a substantially higher rate of economic growth, with a pending economic upswing extended over a longer period on account of having access to international finance, not necessarily IMF only, our economic growth will give us more expenditure capability without raising the overall tax burden Obviously that additional money will go towards urgent social expenditure items," Du Plessis said

A source said Du Plessis was expected to gear his address to the southern African region He was expected to tell the IMF and World Bank that good growth in SA would have much wider positive developmental effects in the sub-Saharan region

Du Plessis was expected to address issues such as nationalisation more circumspectly and not counter the ANC directly. He would reassure the international financial community that the present government would ensure loans were honoured.

In an interview Naidoo linked Cosatu's increasing militancy and ANC secretary-general Cyril Ramaphosa's statement on re-evaluating foreign loans

"Government operates purely on the ba-

☐ To Page 2

(156) ☐ From Page 1

Barend

BDay 11/10/91

sis of technical recommendations from the IMF We have not been consulted by the IMF, so it seems to us that there has been a deal struck between the IMF and government We are clearly going to say to the IMF we do not accept deals struck behind the backs of the people There is a necessary link if those deals relate to economic restructuring, such as VAT, which will then entitle government to borrow money overseas," he said

"So whether it is from private banks, the IMF or the World Bank I would say that in Cosatu there would be a lot of support that we would not honour loans that are made arbitrarily to the SA government"

● See Page 15

Poor nations' call for help expected

(156)

BANGKOK — Developing nations were expected to call for a fresh injection of cash from the IMF to help ride out a decade-long debt crisis, an IMF source said yesterday.

The appeal was expected to be made when finance ministers of the Group of 24, which promotes the interests of the developing countries of Africa, Asia and Latin America within the IMF, meet in Bangkok tomorrow

"The debt burden continues to be an obstacle to economic development and recovery," the IMF source said.

The World Bank has estimated that the total external debt of all developing countries stood at $1 341bn at the end of 1990 B/Day 11/10/91

The stock of debt has continued to grow despite efforts by the Paris Club of Western creditor governments to reschedule debts of several countries. The Paris Club cancelled about half the debt of Egypt and Poland earlier this year

"Only five out of 50 Paris Club nations have completed rescheduling," the IMF source said

"It shows the mechanism is inadequate," he added

The Brady Plan, launched by US Treasury Secretary Nicholas Brady in 1989, has led to commercial-debt reduction deals with a number of countries

But it has yet to make a big dent in the overall exposure of the developing world

Choked off

G-24 ministers were set to call for a new issue of special drawing rights (SDRs) — the IMF's international reserve asset — by the fund to make more money available to meet the looming credit crunch.

The IMF and the World Bank are holding their annual meeting in Bangkok next week.

Developing countries were particularly worried that access to badly-needed investment capital could be choked off because of competing demands from the Soviet Union and Eastern Europe

Both these areas are pressing ahead with free market reforms

The US and other industrial nations fear a new issue of SDRs could be inflationary They also insist that any increased lending that would result must be made conditional on borrowers pursuing free-market reforms

IMF MD Michel Camdessus said yesterday at a news conference that Paris Club creditors should "go the extra mile" to retire debt

Camdessus said he did not envisage a decision on the question of a fresh issue of SDRs before April 1992 — Sapa-Reuter

Africa low on IMF agenda

156 ET 14/10/91

By JIM JONES

BANGKOK — Africa and African countries' economic problems are unlikely to be high on the agenda of this year's annual meeting of the World Bank and International Monetary Fund (IMF) that opens offically here today

Centre stage will be relations with what is now commonly called the "former Soviet Union", trying for IMF and World Bank membership in the hope of staving off total economic collape

The Soviet Union is staggering under a foreign debt burden of $60bn and at the weekend again officially admitted to having gold reserves of only 245 tons worth something in the region of $3bn

That compares with earlier Western estimates of 1 500 tons The low official figure, though still questioned by Western countries, is at present helping to support gold prices

As a sideshow there is the rift over a French sponsored proposal that a $120m international aid package be made available to Vietnam

The aid would allow Vietnam to repay overdue IMF loans which, in turn, could open the door to World Bank advances to the impoverished communist country

Vietnam would appear to be the only major public rift between the US, which enforces a strict trade and finanical embargo against its former adversary, and the rest of the developed world

Besides these issues, other Third World programmes have become of minor significance The Third World situation is not helped by the growing irritation expressed here by the developed countries' representatives with the reluctance of many developing nations to implement sound economic policies

Zambia, which has abandoned IMF approved re-structuring and economic programmes ahead of its October 31 election, is cited as an example of Third World irresponsibility

In contrast, Mexico which was threatening debt default a few short years ago, is held up as the shining example of what correct economic policies can lead to

Developing countries, many of which pay scant regard to human rights, are resentful of attempts by the World Bank and IMF to tie asssistance to political reform

Repeated calls by the IMF's MD, Michel Camdessus, for cuts in developing countries military spending were snubbed at the weekend by G-24, the Group of 24 which fronts for the poorest nations of the developing world in their relations with the IMF and World Bank

In a joint statement read by G-24 chairman and Colombian finance minister Rudolf Hommes at the weekend, G24 finance ministers bluntly told the IMF and World Bank not to become involved "in issues beyond their strict economic and financial mandate "

Soviet woes high on IMF agenda

B/Day 14/10/91 (156)

JIM JONES

BANGKOK — Africa and the economic problems of African countries are unlikely to be high on the agenda of this year's annual meeting of the World Bank and IMF that opens officially today.

Centre stage will be occupied by relations with the Soviet Union, trying for IMF and World Bank membership in the hope of staving off economic collape

It is staggering under a foreign debt burden of $60bn and at the weekend again officially admitted to having gold reserves of only 245 tons worth about $3bn

That compares with earlier Western estimates of 1 500 tons The official figure, though questioned by Western countries, is helping to support gold prices

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In contrast, Mexico, which was threatening debt default a few years ago, is held up as the shining example of what correct economic policies can lead to.

The developed world's irritation is reciprocated by the developing countries.

Many of them pay scant regard to human rights and are resentful of attempts by the World Bank and IMF to tie assistance to political reform

Repeated calls by IMF MD Michel Camdessus for cuts in developing countries' military spending were snubbed at the weekend by the Group of 24 (G-24) which fronts for the poorest nations of the developing world in their relations with the IMF and World Bank.

In a joint statement G-24 finance ministers bluntly told the IMF and World Bank not to become involved "in issues beyond their strict economic and financial mandate"

Bulgarian President Zhalio Zhivkov is applauded by supporters at a polling station in Sofia yesterday when the nation voted to elect a new national assembly for this Balkan state.

Arms call pits rich against poor

156

Sowetan 14/10/91

BANGKOK - A war of words was unfolding yesterday between rich and poor nations over the right of the International Monetary Fund to call for cuts in arms spending.

Repeated appeals by IMF Managing Director Mr Michel Camdessus for all countries to reduce their arms budgets have won plaudits among many industrial nations but have irritated some big spenders in the developing world.

Dutch finance Minister Mr Wim Kok backed the IMF's stand on arms expenditure in a speech yesterday, even though he said the IMF should retain its non-political character.

"Military expenditure is a legitimate concern of the fund, as it can have undesirable consequences," Kok told the IMF's interim committee.

The Dutch Minister's remarks followed a snub delivered to Camdessus on Saturday by the Group of 24 developing nations, which said in a statement the IMF and World Bank should not get involved in issues beyond their strict economic and financial mandate.

Colombian finance Minister Mr Rudolf Hommes, who chaired the G-24 meeting, said some developing countries feared the IMF might make cuts in military spending a condition for extending fresh loans.

India and Pakistan, confronting each other across a disputed border, have taken strong positions against the IMF's calls.

The group of 10 rich nations riposted yesterday in its final statement, calling for cuts "in unproductive expenditures including excessive military expenditures, in all countries".

A Dutch official said the reference was inserted at the request of Italy, with the backing of Belgium and the Netherlands.

The G-10 is made up of G-7 countries - the United States, Japan, Germany, France, Italy, Britain and Canada - plus the Netherlands, Belgium and Sweden. Switzerland, which is not a member of the IMF, is the 11th member of G-10.

The rift over the issue is not solely between rich and poor countries.

"There are shades of opinion both among the industrial and the developing countries," an Argentine official said. SAPA-*Reuter*

Little chance of IMF credits for SA — Stals

ISL ARG 15/10/91

MAGNUS HEYSTEK
The Argus Correspondent

BANGKOK — South Africa would not be eligible for credits from the International Monetary Fund (IMF) even if the political barriers were removed immediately, Dr Chris Stals, Governor of the Reserve Bank, said in an interview here.

This was because South Africa had maintained a balance of payments surplus on its current account in the six years since 1985.

However, it was still important for South Africa to regain the right to access IMF funds when political and economic circumstances permitted, he said.

"The willingness of commercial bankers to make loans available to South Africa depends to a considerable extent on their perceptions of the country's ability to repay such loans.

"With the reserves still insufficient to meet that requirement alone, access to IMF funds — up to R15 million — would offer a crucial assurance.

"It is quite possible, in fact, that by having access to IMF credits South Africa would then actually have no need to make use of the facility."

The foreign debt burden was now lower than that of most developing countries in terms of its ratio to both gross domestic product and to total annual export earnings.

This was the result of the remarkably strong performance of the current account of the balance of payments from the begining of 1985 to the middle of 1991.

This was probably a record for any developing country mainly dependent for its exports on primary commodities.

During that period South Africa achieved an aggregate current account surplus of just over R31 billion, equivalent to $13,4 billion, and enabling it to repay $7,3 billion of debt in terms of the foreign debt moratorium.

Despite an increase in non-dollar foreign debt, because of a weakening of the dollar over that period, South Africa's foreign debt fell from $23,7 billion on August 31 1985 to less than $19,5 billion at the beginning of 1991.

"South Africa's foreign debt as a percentage of gross domestic product declined from 43 percent in August 1985 to 19 percent at the end of 1990, while the percentage of debt to total export earnings declined from 128 percent to only 70 percent."

But although Dr Stals is satisfied with South Africa's handling of the balance of payments and the debt issue since 1985, he is far from complacent.

"Although the gold and foreign exchange reserves are much improved from the position of two to three years ago, when the Reserve Bank's short-term borrowings were on occasion more than the foreign exchange reserves, the present reserves are still inadequate.

"The bank no longer has any borrowings, but the reserves do not cover the cost of more than two months' imports.

"Further, any upswing in the economy will mean a re-accumulation of inventories and higher imports of capital and other equipment for fixed investment."

Camdessus lashes out at critics from Third World

Bday 15/10/91

BANGKOK — The head of the IMF, hitting back at Third World critics, said yesterday the IMF had every right to encourage nations to curtail their arms spending

Michel Camdessus said countries that spent too much on arms were likely to run into economic problems that were of direct concern to the fund

"People tell me it's not within the IMF's jurisdiction," he told reporters.

"Tell me of a country spending excessively on the military without increasing public spending and the supply of money and then tell me if the money supply is not within the jurisdiction of the IMF," he said

It was Camdessus's latest salvo in a campaign to convince countries to reign in arms spending. His efforts have irritated many developing nations

They believe the IMF has no right to tell them to slash weapons budgets

The Group of 24 developing nations said in a statement on Friday the IMF and World Bank should not get involved in issues beyond their strict economic and financial mandate.

G-24 chairman, Colombian Finance Minister Rudolf Hommes, said some countries were worried that the IMF and World Bank might start to insist on cuts in arms spending as a condition for extending loans. (156)

Although he did not mention any countries by name, officials said India and Pakistan were the strongest critics of IMF involvement in the arms spending debate.

Speaking at a news conference yesterday, Camdessus said the issue was "a question of life or death for countries".

Poor nations that spent heavily on weapons were frustrating their chances of vanquishing poverty by diverting badly needed funds from food and literacy programmes, Camdessus said — Sapa-Reuter.

Sowetan

Soviets may get a leg up from the IMF

15/10/91

156

BANGKOK - The Soviet Union yesterday won a new endorsement of its economic reform plans from the world's top financial policy-makers, who dangled the prospect of badly needed loans if Moscow sticks the course.

The policy-making Interim Committee of the International Monetary Fund, capitalism's board of directors, warmly welcomed the Soviet Union into the fold as an associate member and said the IMF would do all it could to help the country through its crisis' - *Sapa.*

Firmer platinum price predicted

B Day 15/10/91 (156)

MATTHEW CURTIN

IMF promises of economic assistance for the ailing Soviet economy and September quarter figures for US car sales, expected today, could bolster platinum and rhodium prices Platinum prices might move beyond the $385 mark by the end of the year, a market source said yesterday.

However, others argued that the fundamental conditions affecting the market had not improved Prices would be volatile, but platinum oversupply and the threat of new production coming on stream would curb any significant price rises

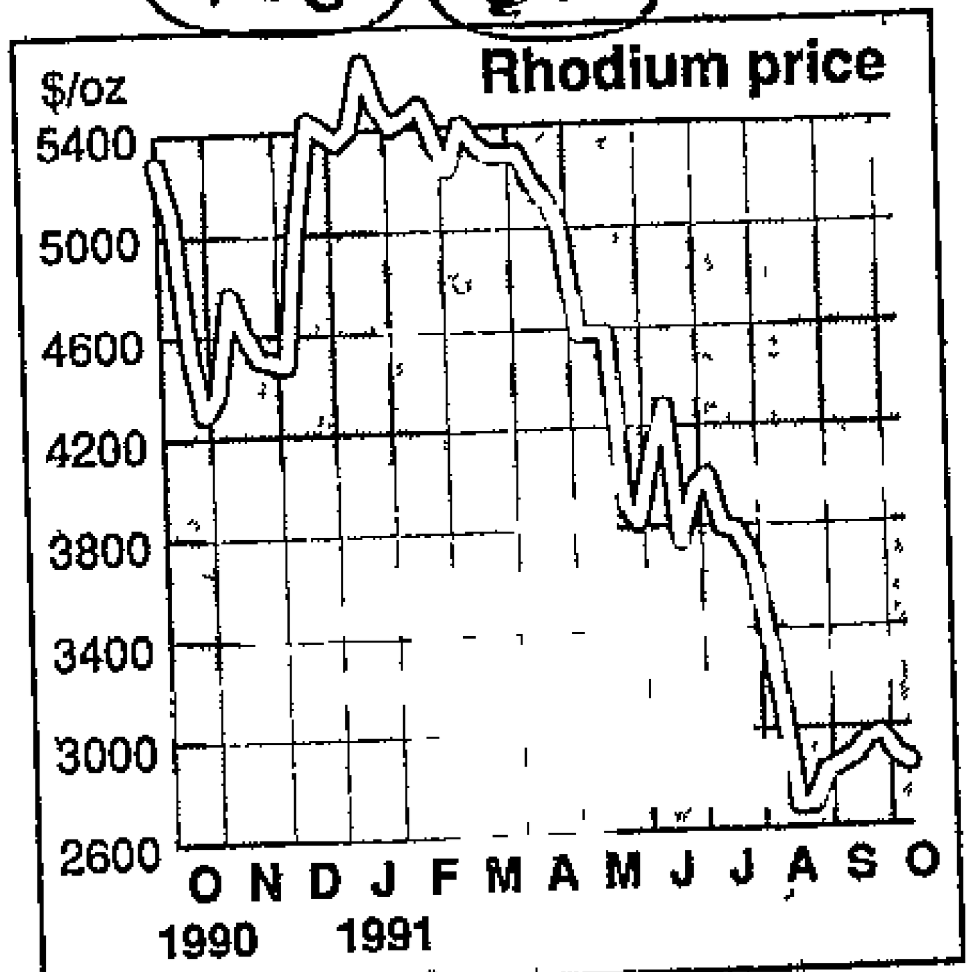
Platinum was fixed in London yesterday afternoon at $370,35/oz, up more than $1 from the morning fix of $369

Pressure

Rhodium prices are near the $2 900 mark, having steadied since tumbling more than 50% from record highs at the end of last year of more than $5 000/oz

Better prices saw platinum shares perk up on the JSE yesterday, with Rustenburg Platinum leading the recovery with a 175c gain to close at R66 Impala Platinum put on 50c to close at R53.

One analyst said that if the Soviet Union received substantial amounts of aid, it would relieve the pressure which had prompted it to sell and deposit large amounts of precious metals to win foreign exchange The hundreds of thousands of ounces of platinum and rhodium deposited with Swiss banks might trickle back to the Soviet Union as it tried to rebuild reserves.



Graphic FIONA KRISCH Source I NET

More than 40% of platinum demand and about 85% of rhodium demand is accounted for by the motor industry which needs the metal for catalytic convertors, which help eliminate noxious exhaust gases.

He said any indication that the slump in the US motor industry was over would sustain metal prices

Car sales were a good indication of the strength of Western economies, and there were already signs that EC car sales were improving, with good figures from Germany and Italy

As economic recovery set in, platinum prices would rise as high as $385 by the end of the year, he predicted More stable and higher prices would help SA producers, who had predicted a dire six months in the run-up to their 1992 interim results

IMF welcomes Kremlin's economic reform plans

B/day 15/10/91 156

BANGKOK — The Soviet Union yesterday won a new endorsement of its economic reform plans from the world's top financial policy makers, who promised badly needed loans if Moscow stuck the course.

The policy-making interim committee of the IMF warmly welcomed the Soviet Union into the fold as an associate member and said the fund would do all it could to help the country through its crisis

"The wide-ranging expertise that has become available under this association will assist the authorities in moving forward with urgently needed economic stabilisation and structural reforms so as to overcome the current crisis and set the stage for a successful transformation of the economy," it said.

The panel, comprising 22 finance ministers and central bankers from the North and South, said the association agreement was a first step towards full membership.

Only with full membership can the Soviet Union become eligible for the loans it needs to overhaul its command economy, now in its death throes after 70 years of central planning, and keep up payments on its $68bn debt to the West

France, for one, said it hoped Moscow would become a full member within a year

It was the second important pledge of support for President Mikhail Gorbachev's chief economic strategist, Grigory Yavlinsky, within 24 hours

On Sunday, finance ministers from the Group of Seven (G-7) industrial nations threw their weight behind the Soviet reform efforts and said they would send their deputies to Moscow soon to examine whether balance-of-payments aid was needed.

Yavlinsky, who has been warning in Bangkok of the disaster that will befall the Soviet Union if the republics fail to agree on a new economic treaty, said the $7,5bn in humanitarian aid pledged by the West and Japan would get the country through the winter.

Yavlinsky told the G-7 that Moscow had enough cash for the next two months and would probably avoid a liquidity crisis next year.

What he wanted most from rich capitalist countries was not money but technical aid "We have human resources and natural resources, but no mechanism to put them together — and that means the market," he said

To the dismay and anger of some delegates, the Soviet crisis has left little time in the days leading to the World Bank-IMF annual meeting for discussion of other important issues; the outlook for growth, Third World debt and prospects for liberalising world trade

□ The Soviet Union's currency reserves were almost depleted, Gosbank chairman Viktor Geraschenko told journalists in Bangkok.

Geraschenko, who is attending the joint annual meetings of the IMF and the World Bank, said the country's reserves of hard currency were "close to zero".

Asked to comment on reports that the Soviet Union was studying gold swaps with Western countries to help it out of its cash squeeze, Geraschenko said the Soviet Union had been doing such swaps "for quite some time".

When asked about the gold reserve estimate, which many believe is inaccurate at 240 tons, the Soviet central banker said "We need to clear this up between ourselves and the republics.

"Some republics have started to play tricks," he said, noting that they have delayed the production and refining of the precious metal. — Sapa-Reuter-AP-DJ

Apartheid dismantling 'historic opportunity'

(156)

ARG 16|10|91

MAGNUS HEYSTEK
Special Correspondent

BANGKOK. — The dismantling of apartheid and the lifting of sanctions has been labelled an "historic opportunity" by Mr Michel Camdessus, managing director of the International Monetary Fund.

With other developments around the world, including the transition to a free market economy in Eastern Europe and the Soviet Union, it had created an unprecedented chance to improve the lives of millions of people, he said in his opening speech at the World Bank/IMF meeting yesterday.

However, he warned that the period of transition would be difficult

Devoting a large part of his speech to Africa and what he called the continent's "unique" problems, Mr Camdessus said the overall situation was now more promising

"There is a striking contrast between their (African countries) harsh plight at present and their encouraging prospects if they apply sound policies to generate adequate and sustainable growth

"It bears noting that the picture in Africa is varied. Some countries have been set back as a result of civil wars, ethnic conflicts, large-scale migration of refugees, famine and natural disasters.

"They face severe handicaps in their efforts to create acceptable living standards.

"At present, 25 African countries are implementing economic adjustment programmes supported by IMF arrangements to the tune of $7,8 billion.

"Moreover, negotiations for similar programmes have recently been concluded by three more countries

"Prospects are good that soon more than 30 African countries will be implementing growth-oriented strategies supported by the IMF

"Where programmes have been implemented vigorously, they are producing impressive results

"In particular, the countries that have seriously pursued reform programmes supported by the IMF have achieved annual growth of more than 4 percent over the past three to four years"

Peril if SA swims against global tide

B/Day 16/10/91.

(156) (8??)

Business Day editor JIM JONES reflects from Bangkok on the significance of this year's annual meeting of the IMF and World Bank

BANGKOK, City of Angels, has been freed of its infamous traffic jams for two abnormally peaceful days Thailand's booming, bustling capital has been host this week to the annual meeting of the World Bank and IMF And playing host has taken precedence over everything else.

The government has been so determined to make a favourable impression on its country's visitors that it has declared a two-day national holiday to remove commuter traffic from Bangkok's streets. It has also made sure any protest is hidden from the cocooned delegates.

Police and army units are on constant patrol in the streets and hotels; what traffic there is on the abnormally quiet streets is imperiously pushed aside by sirens blaring on the police cars leading every car and busload of IMF delegates between the newly built Queen Sirikit conference centre and the city's luxury hotels.

Delegates are warned of the risk of AIDS by a Thai finance minister handing out key-rings made from condoms, and prices have rocketed to separate the hordes of IMF visitors from their cash.

To the front of the conference centre the city's skyline is etched with cranes, symbols of the booming economy Thailand's industrious people have created. To the back are the shacks of Bangkok's poor, a stark reminder of how far this Southeast Asian country's economy has travelled. It also shows what is possible in SA given appropriate fiscal, monetary and legal policies and a willingness to spread wealth through individual effort rather than through the chimera of redistribution and expropriation.

It is, perhaps, ironic that determinedly free enterprise Thailand should have been the country in which the Soviet Union held out its begging bowl to the IMF and World Bank, and the country in which it finally admitted that seven decades of Soviet central planning had failed. The supplicant Muscovite delegation failed to win any aid guarantees or admission to full membership of the World Bank and IMF But the Soviet Union's problems have dominated events this week in Bangkok, and addressing them will be a leading preoccupation of the G-7 wealthy nations for several years.

South Africans find it all too easy to slip into a narrow view of events, and fall into the trap of considering that the momentous changes in our own country preoccupy the rest of the world as they preoccupy us. Nothing could be further from the truth. The world, the World Bank, the IMF, the G-7 nations and everyone else do not believe they owe us a living We have to have our own economic house in order if we are to attract the aid and investment fuel needed to propel us out of our self-satisfied, blinkered lethargy

This might come as a rude shock to politicians advocating redistribution and nationalisation, though whether they will easily accept it is another matter But in a world characterised by increasing competition for scarce capital, if we do not implement realistic policies we will be excluded from the mainstream.

Privatisation, the IMF technocrats believe and Southeast Asian growth rates prove, is an essential part of the environment of growth. But it is not the sole solution. As the Cold War winds down, attention is focusing on the mismanagement of resources represented by military spending A 20% cut in military spending worldwide would free $140bn for productive investment. IMF MD Michel Camdessus estimates that another $90bn could be set loose if unproductive subsidies were scrapped.

Spending to keep uncompetitive farmers in business or to subsidise domestic food prices is simply unacceptable and unsustainable. That is particularly so, it is clear from the world's economic success stories, if the proceeds of privatisation are frittered away on politically expedient consumption expenditure.

The IMF and World Bank are not deviating from their advocacy of the sound or conservative economic policies that are necessary to ensure non-inflationary growth and currency stability Nevertheless, their economists make a point which questions SA's present strategies. Long-term savings can only be generated from sustained growth. It is often easily forgotten that Japan only became a net capital exporter in 1980 If policies designed to stimulate savings lead to slow economic growth, we might as well say goodbye to sustainable growth.

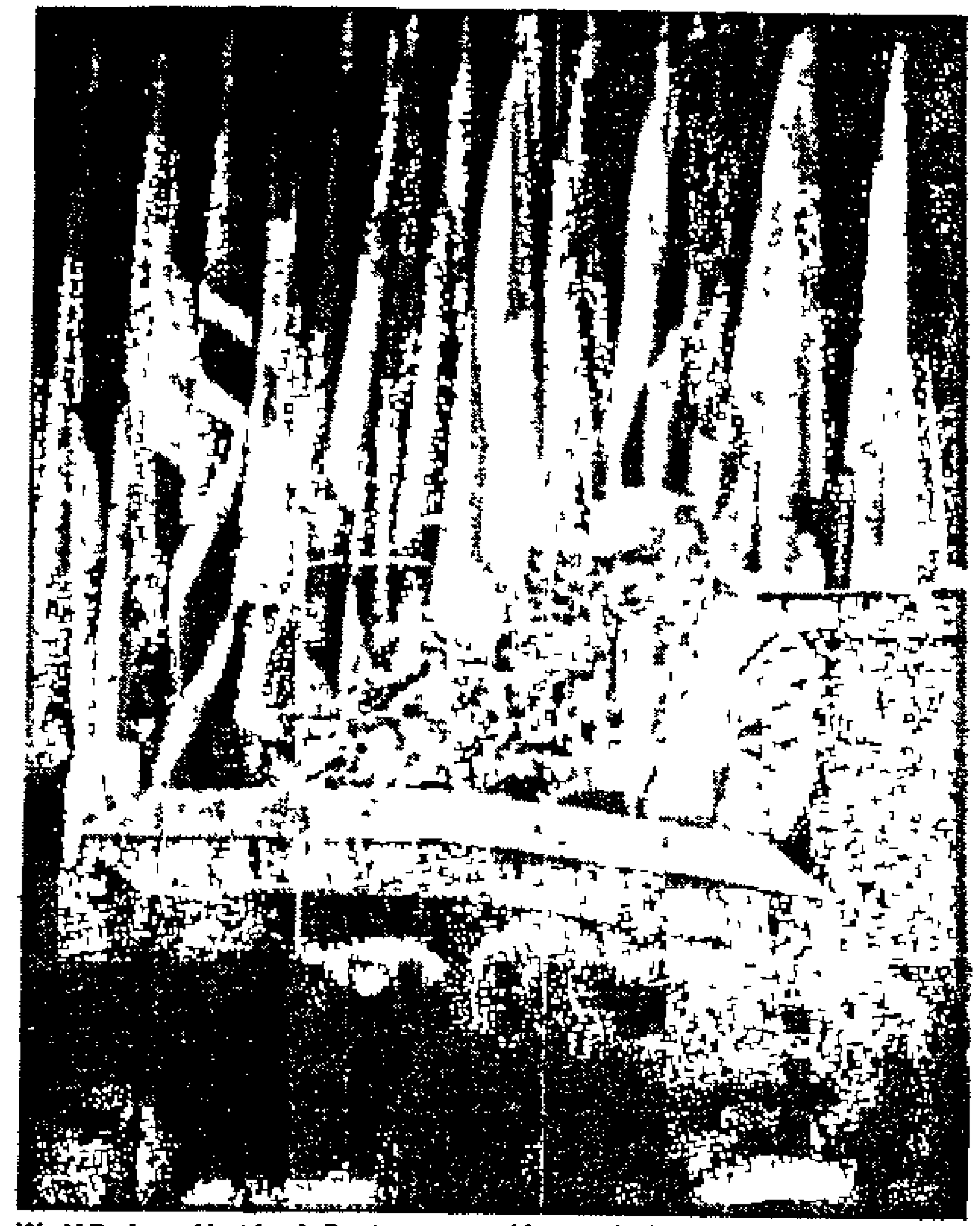
Taking this argument a step further, high interest rates and low growth lead to misallocation of savings and investment in non-productive assets. Turn that around, and it could be argued that an appropriate strategy for SA would be an early lowering of interest rates to encourage fixed investment spending

Deregulation and strict limits on government intervention are fundamental to the IMF view of what represents appropriate policies. Camdessus's circumlocution did not deflect from his warning to the delegates in Bangkok that nationalisation or government participation in the production or distribution of goods is unacceptable and fundamentally damaging. If this flies in the face of the populist economic theories propounded by some of our politicians, it is intended to

But Camdessus had little comfort for industrialists grown fat behind import and tariff barriers. As world growth rates suffer from recession in some leading countries, there is growing pressure from the IMF for agreement on GATT's Uruguay round. Removal of trade barriers is essential to sustained growth, the World Bank believes with justification. But as military competition between the US and the Soviet Union evaporates in the wake of communism's collapse, new economic blocs are emerging

In Southeast Asia the Asean group of nations is negotiating the removal of trade barriers Europe is doing the same, and further down the road there is the possibility of an American free trade zone stretching from Canada to Tierra del Fuego SA will need to negotiate access to these markets, particularly as its own regional hinterland has only 100-million comparatively poor people.

Seen from the global perspective of Bangkok, SA appears to be an economic backwater If we are to get into the mainstream we cannot afford the dubious luxury of policies which have failed elsewhere.



World Bank president Lewis Preston presents his annual address yesterday at the World Bank and IMF conference at Bangkok's Queen Sirikit Convention Centre. Picture: A

Support grows for free trade zones

B/Day 16/10/91 156

BANGKOK — Support for creating regional trade zones is mounting among officials at the World Bank and IMF annual meeting, but nations that see themselves cut out of future trade deals remain highly critical.

Financial leaders say that in an age of rancorous trade disputes, trade blocs are the most practical way of reducing at least some of world's barriers to trade.

"It is a well known fact that free trade zones will be a benefit to all nations," said Jose Angel Gurria, Mexico's treasury under-secretary for international affairs.

But to those nations that see themselves left alone in a sea of trade giants, blocs are just another word for protectionism, threatening to destroy markets.

While trade blocs have been advocated by those hoping to form them, the zones won support here from more neutral parties.

Arthur Dunkel, director general of GATT, said he saw no single case in which proposed regional trade agreements would not complement other efforts to liberalise trade.

The World Bank's chief economist, Lawrence Summers, also strongly supported their creation.

"The priority right now needs to be reducing trade barriers in any way possible," he said.

Financial leaders said that with the Uruguay Round of talks going on under GATT unlikely to produce significant steps toward liberalisation, trade zones have become one of the best hopes for reducing impediments to trade.

Summers said the benefits of free trade zones, the spur of competition and the transfer of technology, would extend to all nations, even those not included in a bloc.

But to those that do not see themselves included in any trade group, the blocks are a threat.

"Trade packs are groupings of nations that one way or another are likely to make preferential arrangements with each other," said Peter McCawley, deputy director general of the Australian International Development Assistance Bureau.

"They are interventionist, protectionist policies."

He and officials from other countries said blocs present a two-fold problem, blocs could use the threat of lifting trade barriers to muscle advantagous trade agreements from isolated nations, bloc participants might win access to markets at the expense of those on the outside.

In addition to the EC's drive toward a common market in 1992, the US and Canada have already begun negotiating a free trade agreement with Mexico and an Asian trade group has been proposed by Malaysian Prime Minister Mohamad Mahathir. — Sapa-Reuter.

Vietnam buries the past in search for economic miracle

B/Day 16/10/91. 156

Business Day editor JIM JONES last week visited Hanoi. The Vietnamese economy is today under the spotlight at the IMF and World Bank meeting in Bangkok

THE group of young Vietnamese women sorting coal at the Ha Lam colliery had one question. "Is there a cure for the disease we all have?"

No need to ask which disease. Twin black rings marked the nostrils of the women under the white cloths wrapped around their faces for protection from dust. Even though they were working in the open air, sorting and cleaning coal by hand, black lung disease or miners' phthisis would continue to afflict them unless the colliery found the money for modern equipment.

The state of this small colliery — employing 2 400 men and women to produce a miserable 300 000 tons a year — was the Vietnamese economy in microcosm. Largely cut off from the developed world for decades by war and a US trade and financial embargo, the communist state has few capital assets, little modern infrastructure and none of the financial or legal institutions central to a modern economy.

Labour-intensive farming goes on in much the same way as it has for centuries. Hanoi has few facilities — domestic water is drawn from kerbside wells lining the old city's streets. The phone and postal systems are archaic, slow and poor beyond belief. Ha Lam's coal is hauled and sorted by hand, railed 10km to Ha Long harbour and then carried by lighters to ships moored kilometres out to sea. The car trip from Hanoi to the resort town of Ha Long takes a bone-jarring five hours.

This is no country for the package holidaymaker or the businessman unprepared for inconvenience, red tape and a lack of basic facilities.

Vietnam's main viable assets are its 77-million people, giving it Southeast Asia's second largest population compared with Indonesia's 175-million and booming Thailand's 56-million. That makes Vietnam one of the world's most important markets — potentially. Today's reality is that the country is dirt poor — its GNP per head is among the world's lowest half dozen or so.

Four years ago Hanoi's ruling gerontocracy decided on a leap into the dark. Rationing and food subsidies were scrapped, the state stopped providing low-cost housing and free utilities, and agriculture and distribution were freed from state ownership and allowed to operate on market lines.

The effect on Vietnam has been startling. Malnutrition which resulted from the former state-ownership of farms and fixed prices has largely vanished. The trade-off has been triple-digit inflation, leaving formal sector wages lagging way behind price rises. The women at Ha Lam colliery earn the equivalent of a couple of US dollars a month, senior government officials can count on a monthly salary of $5 to $10. Wages are insufficient to keep a breadwinner in food, let alone a family.

The upshot has been a tremendous release of energy. People moonlight and run their own businesses simply to keep body and soul together. In this workers' paradise there is no social security, no guarantees of jobs and wages and no subsidies on transport, food or accommodation.

But Hanoi has been transformed. Thread your way through the trading stalls on the pavements of the old city and see the ground floor of practically every house turned into a store, workshop, bar or eatery. There are no old cars in the streets. There were no private cars three years ago, so the jalopies that clog the streets of most Third World cities do not exist here. Change is also apparent from the traffic chaos — for a people used to walking or cycling, the motorbike is fast becoming a traffic nightmare.

Unexpectedly, there are few soldiers in evidence on Hanoi's streets or in the country. The biggest sign of officialdom is the army of traffic policemen trying to control the city's traffic anarchy. Here there are no rules of the road — regulations have not kept pace with the explosion in bicycle and motorbike numbers.

Hanoi and the countryside are vast house-building sites. Private owners are putting up homes on stands provided by the state and served by private developers.

Turmoil best describes the situation. Energies have been released by government's decision to free the economy. But the change is not being planned or directed. Vietnam has none of the financial managers and technicians needed to manage a modern economic state and the impression is of a chaotic melting pot.

Of course, the conservative official blames backwardness on the war. Vietnam has been more often at war than at peace in the past 4 000 years. The past 40 years of war against the French colonial power, the US and the succession of US-backed Saigon regimes, the invasion by China and the intervention to save Cambodians from the genocidal craze of Pol Pot's Khmer Rouge have drained the economy.

But the war against the US has largely been forgotten, and reconciliation between the two adversaries is only a matter of time. Maybe not until after the 1992 presidential election is over — Vietnam is an emotive issue in the US. But when it comes, the investment floodgates are likely to open as investors scramble to get into what potentially could be the most promising of Southeast Asia's economic miracles.

Soviet subsidies have dried up. Vietnam needs and wants international help and investment, but is largely prevented by the US embargo from tapping foreign capital sources or developing export markets. The effects of America's Trading with the Enemy Act are far more stringent than anything experienced by SA under the Comprehensive Anti-Apartheid Act. Its ridiculous extremes were underscored only this week when Washington decided to prohibit US banks from doing business in dollar-denominated trade transactions by Vietnam.

The embargo is not preventing some early-bird companies and countries from investing in Vietnam. But they are the pioneers and are often frustrated by the bureaucratic red tape that can tie up even the simplest property development project for years. One Vietnamese firm is choosing between several foreign partners on a hotel development in Hanoi, but is in no rush to make a choice. Threading the necessary permits through the bureaucracy is expected to take upwards of two years.

There is also the question of the country's ability to absorb massive doses of foreign investment without serious distortions.

This is the legacy of war — the bureaucracy is designed along military lines and no one seriously questions its directives. But there are growing complaints from impatient younger officials.

A dozen oil companies are already drilling offshore; an Australian mining company is exploring for gold in the south, manufacturers from Japan, Taiwan and Hong Kong are setting up assembly plants to take advantage of Vietnam's low wages and adept workforce, European hotel groups are working with local partners on hotel and resort projects; and Far Eastern food and agriculture companies are starting to develop plantations, fisheries and forestry projects.

The list of prospective or nascent ventures is long. That of completed ventures is shorter — bureaucracy and the sheer difficulty of doing business in a seriously underdeveloped region account for that.

The country's ability to tap funds from international agencies remains, perhaps, the crucial issue. The US continues to block access to IMF or World Bank funding, but on technicalities. If a French-sponsored plan to raise $120m from a group of donor countries succeeds, Vietnam could settle its IMF loan arrears and qualify for World Bank funding.

The Vietnamese have put the war with the US behind them and seem genuinely bewildered as to why Washington cannot do the same. Hanoi has complied with all the US's conditions for lifting the embargo.

For an SA visitor, one of the most striking aspects is the way in which the baggage of history has been ditched, and the way in which almost everyone seems to be focused on building an economy that can deliver the goods. There is no moaning about restitution, redistribution or reparations — that is viewed as a futile preoccupation by a country hurrying to catch up with the developed world.

Advice flows freely on capitalism's big day

B/Day 16/10/91 (156)

BANGKOK — Capitalism's premier annual event opened in Bangkok yesterday with Japan implicitly telling the US how to run its affairs and Washington telling the World Bank and IMF how to run theirs.

Bank of Japan governor Yasushi Mieno endorsed the IMF's call for increased savings in the industrialised world to help meet the demands of Middle East reconstruction and the emergence of the Soviet Union and Eastern Europe as market economies.

"First and foremost, we urge that countries with budget deficits, especially some of the major industrial countries, make every effort to cut their deficits, as this is one policy that can be adopted by governments individually," Mieno told the opening-day session of the World Bank-IMF annual meeting.

Canada, Italy and especially the US have been under increasing pressure from rich allies to bring their expenditure more in line with their revenue.

Mieno said the economies of major industrial nations generally were expanding. To solidify this trend, he said, major nations should adopt fiscal and monetary policies that provided the basis for sustained, non-inflationary economic growth.

US Treasury Secretary Nicholas Brady devoted most of his speech to the problems faced by the Soviet Union, an American preoccupation during days of preliminary meetings in the Thai capital.

Brady told the World Bank and the IMF they would need to develop "new modes of operation" to help the Soviet Union and Eastern Europe make the transition to capitalism.

"Brief mission visits to negotiate adjustment programmes with central governments will not be enough.

"In the Soviet Union and Eastern Europe, we are confronted with the most radical economic change in the post-war period," Brady said. "They .. need more fundamental assistance that goes well beyond standard (economic) adjustment programmes."

He ticked off a list of what was required, from changing attitudes towards the creation of wealth to building basic private and government economic institutions, and from basic training on how to run profitable companies to practical advice on tax codes and tax collection systems.

"And last but not least, they need assistance on how to establish a workable legal system for private enterprise," he said.

To respond to those needs, the IMF and World Bank must develop a partnership with the private sector to elicit its expertise in helping countries build the foundations of market economies, Brady said.

IMF MD Michel Camdessus advised those of the world's industrialised nations with inflation running at an "excessive rate" to pursue cautious monetary policies.

"These countries should take steps to ensure that the (economic) expansionary phase that is beginning is a sustained one that is not marred by high inflation or other symptoms of macro-economic imbalance," he said.

Camdessus said the IMF expected industrial nations to experience a moderate economic recovery next year, with growth of just below 3%.

He gave warning of a further rise in real interest rates worldwide that would crimp growth unless concerted and decisive action was taken to boost global savings.

In that regard, he urged major nations to reduce budget deficits.

"In the US, it is essential that the (recent) budget agreement be fully implemented and complemented by additional measures if these are necessary to achieve the medium-term fiscal goal," Camdessus said. — Sapa-Reuter

World Bank president Lewis Preston presents his annual address yesterday at the World Bank and IMF conference at Bangkok's Queen Sirikit Convention Centre. Picture: AP

free trade zones

duce significant steps toward liberalisation, trade zones have become one of the best hopes for reducing impediments to trade.

Summers said the benefits of free trade zones, the spur of competition and the transfer of technology, would extend to all nations, even those not included in a bloc.

But to those that do not see themselves included in any trade group, the blocks are a threat.

"Trade packs are groupings of nations that one way or another are likely to make preferential arrangements with each other," said Peter McCawley, deputy director general of the Australian International Development Assistance Bureau

"They are interventionist, protectionist policies"

He and officials from other countries said blocs present a two-fold problem, blocs could use the threat of lifting trade barriers to muscle advantagous trade agreements from isolated nations, bloc participants might win access to markets at the expense of those on the outside.

In addition to the EC's drive toward a common market in 1992, the US and Canada have already begun negotiating a free trade agreement with Mexico and an Asian trade group has been proposed by Malaysian Prime Minister Mohamad Mahathir. — Sapa-Reuter

Africa 'needs more aid to fight poverty'

BANGKOK — African nations yesterday painted a grim picture of growing poverty, meagre investments and environmental crisis while asking the international community for large aid input.

But Steven Kibona, who heads Tanzania's delegation to the World Bank's annual conference, stressed African states were implementing economic reforms despite "the difficulties and sacrifices encountered"

"It must be unmistakably clear that African government are committed to doing what is necessary and feasible to rejuvenate their economies and set the stage for improved standards of living," he said B/Day

Kibona, who is Tanzania's finance minister, spoke on behalf of the African members of the World Bank and IMF. 16/10/91

"The debt overhang is still an albatross around the neck of many African countries," Kibona said

"There is now a heightened risk that Africa will be left on the periphery of the international economy"

He said it was critical that domestic and foreign investment be increased and that debt relief be offered by foreign monetary institutions

He said that the ratio of investment to national income had fallen by some 25% since 1980. Warnings about a global capital shortage meant that African countries would have difficulty competing for capital.

"In sum, we are appealing to the donor community to increase its support of our growth-oriented adjustment efforts," he told the 155-member World Bank — Sapa-AP.

IMF head warns of rising interest rates

BANGKOK — The head of the IMF reiterated a warning yesterday that real interest rates would rise throughout the world if governments did not act now to reduce their budget deficits

MD Michel Camdessus said that in the absence of any concerted and decisive action, "the potential imbalance between projected savings and intended investment can only be resolved by a further increase in real interest rates".

This was "unacceptable" because it would discourage investment and increase the debt service burdens of the world's developing nations Camdessus stressed, however, that the scenario could be avoided if governments reduced their drain on savings by cutting unproductive expenditures such as protective subsidies, prestige projects and military spending

The abolition of agricultural subsidies in the industrial countries could free more than \$100bn a year from national budgets, while a 20% cut in military expenditures from 1989 levels could save \$90bn a year

He said they had no alternative to cutting spending because private spending was unlikely to rise in the medium term and there would be a substantial increase in world demand for capital. — AP-DJ

● See Page 9

(156)

8/10/91

Letter to UN slates IMF role in VAT

Star 17/10/91

156

By Paula Fray

The Co-ordinating Committee on VAT (CCV) has appealed to the United Nations to assist in stopping the International Monetary Fund from "meddling" in South Africa — especially in regard to the implementation of VAT

The organisation has also written to the IMF.

In a statement issued yesterday, CCV co-ordinator Bernie Fanaroff said the IMF had apparently worked out the technical aspects of the VAT system for the Government and had advised a VAT rate higher than the 10 percent originally proposed by Vatcom, the committee set up to investigate VAT.

"The Government seems to have relied on IMF advice not to allow exemptions or zero rating of basic foods, electricity and water, medicines and medical services in its discussions with the CCV," it said.

The UN secretary-general was requested to take action in terms of three UN resolutions, adopted by the General Assembly in 1986 and 1990, which commit the world body to call on the IMF, the World Bank and other organisations not to extend loans or assistance to the South African Government until there is "clear evidence of profound and irreversible changes in South Africa".

In a letter to the UN secretary-general, the CCV said that while certain minor changes to the VAT system had been made, the Government had refused to enter into a process of negotiation

Barend shifting views on labour?

CT 17/10/91

Own Correspondent

BANGKOK. — Finance Minister Mr Barend du Plessis yesterday suggested that a form of social accord between government, business and labour would facilitate SA's move towards economic and political democracy.

Addressing delegates to the World Bank and IMF annual meeting, he said a type of social accord had been invaluable in many developing countries

He did not elaborate, but his statement appeared to represent a shift in his views on organised labour He recently said any shared economic decision-making should occur through a forum established by an all-party conference — a party political forum

And last week his special adviser, Mr Japie Jacobs, said unions had overplayed their hand by demanding a say in economic policy-making

In Johannesburg a senior unionist said Cosatu was open to Mr Du Plessis's idea

Mr Du Plessis did not refer directly to SA, but said that unless timeous external support brought the early achievement of at least some of the goals of restructuring, the whole process might be thwarted

VAT group writes to UN over IMF

156

JOHANNESBURG — The Co-ordinating Committee on Value-Added Tax has written a letter to the United Nations, urging the world body to censure the International Monetary Fund for its involvement in South Africa's economic policies

The letter quoted a resolution passed at the committee's second VAT summit, calling on the IMF not to process the R30-billion loan to the SA government until the VAT dispute was resolved and "the political and socio-economic negotiations are advanced" It added that VAT would spread the tax burden significantly to the country's poor

● Doctors in Durban yesterday held a placard protest against the imposition of VAT on medical services CT 17/10/91

More than 100 doctors of the National Medical and Dental Association (Namda) walked to the Receiver of Revenue offices in West Street, where a memorandum was handed to the Receiver, Mr Geoff Grant

NEWS IN BRIEF

'Fewer arms, more aid' 156

DEVELOPING countries that spend less than 2% of their GDP on arms should get special aid treatment, Belgium's finance minister told the IMF's annual meeting yesterday.

"Even if the application of this formula caused occasional difficulties, it would be a powerful incentive to reduce the waste of resources resulting from excessive armaments purchases by poor countries," said Philippe Maystadt. B/Day 17/10/91

'Help us back' plea 156

DESPITE a continuing fall in economic output and rising unemployment, the Czechoslovakian government was committed to its nine-month-old reform course, Finance Minister Vaclav Klaus said yesterday. B/Day 17/10/91

He called on member nations of the IMF and World Bank to help "re-integrate" Czechoslovakia into the world economy by providing international support and opening up markets.

$18bn target B/Day 17/10/91.

BRAZIL could raise up to $18bn from privatisation and might reduce its external debt by even more through debt-to-equity conversions, Finance Minister Marcilio Marques Moreira said yesterday.

Marques told reporters at the IMF annual meeting that Brazil aimed to privatise one state enterprise every two weeks over the next year.

REPORTS Sapa-Reuter AP-DJ

Aid in the pipeline for Baltic states

BANGKOK — The G-24 rich nations were ready to provide financial aid to Lithuania, Latvia and Estonia and expected them to join the IMF next year, a senior official said yesterday.

Albania was also expected to get financial help, EC vice-president Henning Christophersen said.

Christophersen chaired G-24 talks yesterday. He told reporters afterwards there was unanimous support for a plan for the Baltics and Albania that included transfers of money and help with balance-of-payments problems. An agreement would probably be finalised with Albania — which joined the World Bank and IMF on Tuesday — before the end of the year.

Christophersen said the G-24 meeting in Bangkok was called to prepare for a ministerial meeting of the group on November 11. Solving Bulgarian and Romanian financing problems would be its priority.

Next year Bulgaria and Romania would need $1bn to $2bn of assistance in the form of guarantees for credits raised on international markets. The G-24 was still $500m short of its $3,3bn goal to fund balance of payments loans this year. Albania, with average per capita annual income of $600, would need "special treatment".

Christophersen called on other nations — especially the US — to increase aid.

Yugoslavia urged the IMF and World Bank to take more risks to ensure its reforms did not grind to a halt.

National Bank governor Dusan Vlatkovic said failure to secure enough external financial backing for earlier reforms had helped worsen economic problems — Sapa-Reuter.

US predicts 3% growth next year

B/Day 17/10/91

BANGKOK — Britain's Chancellor of the Exchequer Norman Lamont said yesterday the US was growing more optimistic in economic forecasts for next year.

He said Federal Reserve chairman Alan Greenspan expected "quite substantial" growth in the economy next year of around 3%.

Lamont said Greenspan, while recognising that difficulties remained in the property and housing markets and in the financial sector, "is growing a little bit more optimistic".

Both men are in Bangkok for the annual meeting of the World Bank and IMF.

Greenspan had given a "quite upbeat" assessment of the US economy at a meeting of the G-7 nations, Lamont said.

Of Britain's economic future Lamont told a news conference "We will see a modest upturn in the second half of the year."

He said G-7 finance ministers and central bank governors had discussed the IMF's forecast of 3% world growth next year and "didn't see the forecasts as unrealistic".

Lamont said he saw no reason for the G-7 to take concerted action now to boost the world economy.

He said the G-7 was worried about how the market viewed the Soviet economy. "One of our main concerns is the Soviet Union should have access to Western credits." — Sapa-Reuter, AP-DJ.

VAT critics tell off IMF for meddling

(156) LESLEY LAMBERT

THE VAT Co-ordinating Committee has asked the IMF to stop meddling in SA's economic policy making and to freeze an application the committee claims the SA government has made for a R30bn loan

The committee has also asked UN secretary-general Javier Perez de Cuellar to take action in terms of three UN resolutions. The resolutions, adopted by the General Assembly in 1986 and 1990, commit the UN to discourage the IMF, the World Bank and other international funding organisations from extending loans or assistance to SA until there is "clear evidence of profound and irreversible changes"

The committee's requests were backed yesterday by the SA Council of Churches' call for the continued isolation of SA from international capital markets until government had ceded power to a transitional authority. BDay 17/10/91

Both statements were timed to coincide with the World Bank and IMF meeting in Bangkok.

In a letter addressed to IMF MD Michel Camdessus, the committee claimed the IMF had played a strong role in VAT's implementation. "In particular we were led to believe that the IMF was instrumental in influencing the rate of VAT," committee convener Bernie Fanaroff said

Fanaroff said committee members had "protested against the meddling by the IMF in SA economic policies and called on the IMF not to process the R30bn loan to the SA government until the VAT dispute has been resolved and political and socio-economic negotiations are advanced"

But Finance Department officials yesterday strongly denied knowledge of a loan application for R30bn — representing about 40% of SA's annual Budget.

They reiterated that SA did not qualify for IMF funding. Its balance of payments was stable and it had no need for short-term IMF financing of temporary deficits.

Responding to claims that the IMF was meddling in the country's economic affairs, the spokesmen said it was necessary for it to monitor the economies of member nations and to comment on changes in economic policy

Move to include labour

Social accord will help SA, says Barend

B/Day 17/10/91

156

JIM JONES

BANGKOK — Finance Minister Barend du Plessis yesterday suggested that a form of social accord between government, business and labour would facilitate SA's move towards economic and political democracy.

Addressing delegates to the World Bank and IMF annual meeting, Du Plessis said a type of social accord had been invaluable in many developing countries

Du Plessis did not elaborate, but his statement appeared to represent a shift in his views on organised labour. He recently stated that any shared economic decision-making should occur through a forum established by an all-party conference — a party political forum.

And last week his special adviser, Japie Jacobs, told a conference that unions had overplayed their hand by demanding a say in economic policy-making — it happened nowhere else in the world.

Commenting in Johannesburg on Du Plessis' reference to a social accord, a senior unionist said Cosatu was open to the idea.

Du Plessis said economic restructuring often produced more immediate pain than gain, and as a result the objectives of reform were often difficult to achieve.

Du Plessis did not refer directly to SA, but said that unless timeous external support brought the early achievement of at least some of the goals of restructuring, the whole process might be thwarted or even aborted. "Both economic and political democratisation could therefore be seriously jeopardised if premature disillusion with the results of the adjustment process is experienced and translated into political rejection"

Taking into account the complexity of economic restructuring programmes, developing countries needed the wide-ranging support of the international community, and in particular of institutions like the IMF and World Bank, in the design and implementation of such programmes.

The tone of Du Plessis' speech was in line with the general tenor of the meeting. However, he made the point that there were no hard and fast rules for successful restructuring.

Indirectly referring to SA's experience, Du Plessis said the solution did not lie in mere emulation of successful strategies in other countries Nor did success necessarily lie in association with one or other regional grouping.

"On the contrary," he said, "the road to success is normally individually styled, requiring hard work and dedication and touching the very fabric of the society involved Indeed it is consistently found that 'prosperity begins at home', and more often than not, strong leadership is needed to cope with the drastic and unpopular choices that need to be made"

Du Plessis' prescriptions for economic success carried no surprises. He addressed the conservative issue of fiscal and monetary rectitude, the promotion of an environment which encouraged savings and investment and his view that sustainable growth was possible only in conditions of macroeconomic financial stability

● Comment: Page 8
● See Page 9

VAT group's plea to UN

Sowetan 17/10/91 (156)

THE Co-ordinating Committee on Value Added Tax yesterday asked the United Nations to persuade the International Monetary Fund not to process a R30 billion loan to the Government

In a letter to the UN, the committee, which represents more than 100 organisations, asked the world body to stop the IMF from "meddling" in South Africa's economic policies until the tax disputed had been settled.

The committee comprises the country's two largest union federations, the African National Congress, the Pan Africanist Congress, the Azanian Peoples Organisation, consumer, welfare and religious groups.

The letter said VAT would spread the tax burden significantly on to South Africa's poorest people, most of whom were disefranchised.

It said State President FW de Klerk had explicitly refused to enter into discussions over tax reform or economic reconstruction, while showing willingness to negotiate a political settlement. - *Sapa.*

156

The big chill

FM 18/10/91

Opportunity, not redistribution, is the watchword of the market economies

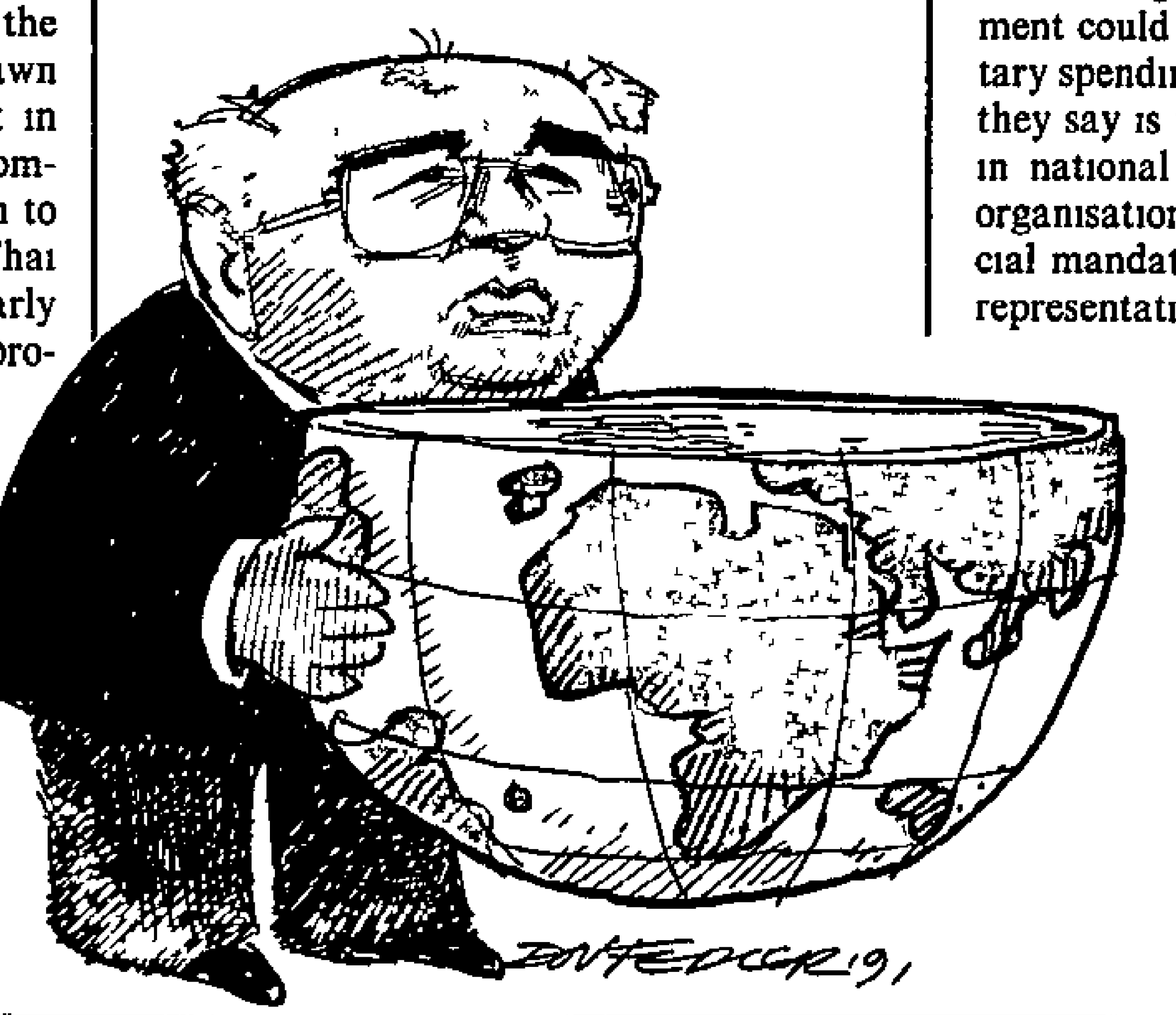
By Jim Jones, writing from Bangkok.

It would be hard to imagine two more contrasting cities than a bustling, booming, energetic Bangkok and a crumbling, apathetic Moscow. Yet recent events in these two capitals encapsulate the principal tasks faced by the IMF and World Bank.

Bangkok, now hosting the annual meetings of the IMF and World Bank, has also been host to an impromptu meeting of the People's Forum. Its members are drawn from developing countries and had met in Thailand's capital to protest against economic policies they claim pay scant attention to environmental or human rights needs. Thai members of the Forum are particularly angry over a World Bank-financed dam project which, they believe, will inflict serious economic damage on their country.

The USSR, or what remains of it, has never considered environmental issues to be of any great importance. Apart from destroying the legitimate economic aspirations of several generations across the Soviets' sprawling empire, Kremlin *apparatchiks* also waged total war on their territory's environment with no help from international agencies.

With the collapse of Soviet communism, the USSR's begging bowl has been presented to the G-7 nations, the IMF and World Bank. Moscow has applied for membership of both international financial organisations, tacitly accepting that it has to put in place the policies of economic rectitude and openness that form part of the terms of World Bank loan finance.



In contrast, criticisms of IMF policies by the People's Forum were amplified in the corridors of the IMF meeting by the G-24, the Group of 24 developing countries at the bottom of the world's economic heap.

They are particularly miffed by IMF suggestions that, in a world of comparatively low savings, financing economic development could usefully come from cuts in military spending. They are also critical of what they say is the IMF's incorrect interference in national politics going way beyond the organisation's strictly economic and financial mandate. By their complaint, the G-24 representatives signified their lack of understanding that democracy and respect for human rights are concomitants of sustained economic advance.

The Soviet problem — the USSR owes well over US$60bn to foreign lenders, has almost no foreign currency reserves, can count on gold reserves worth at most only 10% of its foreign debt and expects an economic decline of 10% this year and 20% next year — has dominated this year's meetings of the

continued

IMF and World Bank. A leading fear, particularly among African representatives, is that the sheer amount needed to salvage the Soviet economy will divert funds from other needy countries. The cynical or pragmatic question that arises is: which African countries have succeeded in putting World Bank loans to any lasting good use?

Delegates in Bangkok are wringing their hands over Zambia where an expedient President Kenneth Kaunda has decided to bolster his end-October electoral hopes by scrapping painful economic restructuring programmes insisted upon by the international organisations as part of the terms of lifeboat loans. Funding to Zambia has been halted and Kaunda's commitment to real economic reform been brought into question. Kaunda and African representatives in Bangkok are aggrieved, questioning official assurances that the Soviet Union's needs will not lead to restricted lending to the world's most impoverished continent.

African countries which feel free to ignore IMF economic suggestions have much to fear. Apart from having to fund the Soviet Union's restructuring, the World Bank and G-7 donors will also be considering calls for development funds in south-east Asia. The main thing people in that part of the world demand is opportunity — not redistribution, rights, reparations nor any of the other demands which form part of the lexicon of change in our country.

SA visitors are shaken by the sheer hard work which will give the south-east Asia region an overall growth rate of 5,3% this year. There are also other countries, such as impoverished Vietnam, climbing on to the market-driven economic bus.

For all the criticism levelled by politicians at the IMF and World Bank, the two organisations remain committed to what they believe are sound economic policies needed to underpin long-term growth. SA, frequently the centre of political attention at international forums, is out of the limelight. In any case, we remain excluded from IMF and World Bank lending by the Gramm Amendment which compels US representatives to block any loans to SA.

Gramm seems unlikely to be lifted until the ANC gives its approval. That could remain a sticking point, some delegates in Bangkok believe.

J P Morgan, the New York banking company, went ahead with a syndicated loan for the Independent Development Trust only after the ANC had given its approval. Who can blame lenders for their caution when ANC secretary-general Cyril Ramaphosa articulates his version of ANC policy by saying an ANC government would be likely to renegotiate international loans made to SA's present government?

The ANC has had representatives in Bangkok to try to dissuade the two international agencies and other bankers from extending further loans to Pretoria. Their representations have not been well received by financial technocrats who are well aware that the redistribution and nationalisation policies being spouted by the ANC could quickly ruin the economy.

Not that the IMF is altogether happy with our present economic management. A recent IMF delegation to SA reported on its happiness with the Reserve Bank's continuing monetary policies but expressed concern at the way in which fiscal conservatism appears to have been ditched by government deficits caused by expedient spending on affirmative action or readjustment programmes.

The new economic angels are south-east Asian and Latin American countries which have quietly embraced market mechanisms and been able to repay emergency and other loans which bailed them out of the consequences of putting politics before prudent economic management. Citing them as examples may grate on SA ears but they appear to be the wave of the future.

If SA's politicians ignore that wave, and our policies prevent us from riding it, we will be left behind and can kiss rising living standards goodbye. ■

Hong Kong tipped for '97

B/Day 18/10/91.

BANGKOK — The World Bank-IMF circus left town yesterday, but already officials were working on where to raise the big top as far ahead as 1997

Hong Kong is being actively discussed as host in a year when the British colony reverts to Chinese rule

British Chancellor of the Exchequer Norman Lamont was said by a senior UK Treasury source to be very enthusiastic about the idea (156)

For the ~~next~~ two years, the meeting will be in Washington, and in Madrid in 1994

The last meeting in Europe was in 1988 in Berlin

The joint meeting was held in Nairobi in 1973 but few other African venues are seen as practical alternatives

"When African countries host the OAU meeting, they build huge conference centres and airports," said one senior monetary official

"And then a couple of years later they come and reschedule (their debt) at the Paris Club

"That's why we don't think it would be a very good idea to hold the annual meetings in Africa"

Possibilities do exist in Latin America, where the IMF/World Bank met in Rio de Janeiro in 1967, and and Buenos Aires are mentioned as two with adequate facilities

But no other city would seem to have the context of Hong Kong in 1997 or the facilities, including so many central luxury hotels, delegates said — Sapa-Reuter.

WORLD BANK/IMF MEETING

Financiers less optimistic

B/Day 18/10/91 156

BANGKOK — Optimism that an early world recovery and swift removal of the Soviet military threat would bring prosperity quickly soured at the annual meeting of the IMF and the World Bank.

Delegates were cautious about a sharp upturn and leading Western nations made it clear they had no immediate plans of resolving the Soviet Union's financial plight.

The meeting also failed to provide breakthroughs for Third World debtor countries. British and French proposals for reducing the official debt of poorer nations was stalled by US opposition.

Leading finance ministers and IMF and World Bank officials provided reassurance that world resources won't be diverted to the Soviet Union and eastern Europe at the expense of the developing world. But World Bank president Lewis Preston and other delegates suggested that Third World countries could do more to help themselves by cutting military and other unproductive spending.

As expected, the Soviet Union dominated the meeting. It attended the meeting for the first time as a special associate member in what Western ministers described as a "historic occasion".

Finance ministers and central bank governors from the Group of Seven (G-7) countries held lengthy discussions with leading Soviet delegate Grigory Yavlinksy, the architect of the country's economic reform program.

The discussions, which lasted an unprecedented three days and prevented some G-7 ministers from attending the start of the IMF's interim committee meeting, proved inconclusive.

Yavlinsky outlined to the ministers plans for a union treaty that might prevent the country's 15 republics from splitting apart. He also reaffirmed that the Soviet Union would continue to honor its debts, but he failed to provide the full update on Soviet economic data many had expected. The G-7 ministers decided to send their deputies to Moscow later this month to hold further investigative talks.

During the meetings, Yavlinksy repeated that the country's available gold reserves amounted to only 240 tons and warned that the country could face chaos next spring. A confidential report to the G-7 showed the Soviets were seeking as much as \$20bn for a rouble convertibility fund.

Soviet State Bank chairman Viktor Gerashchenko added to concern about the country's payments problems by claiming its currency reserves were "close to zero".

The G-7 ministers said although they hoped to prevent the Soviet Union from defaulting on its foreign debt, they were not prepared to provide any concrete financial aid until the country had settled its union treaty one way or another.

The ministers were keen to point out that in the long run, at least, bringing the Soviet Union into the world economy could only be positive.

The discussions took place against a background of optimistic forecasts from the IMF, predicting that the world economy will recover from a subdued growth rate of 0,9% this year to nearly 3% next year.

However, some felt the IMF was painting a more positive picture than circumstances suggest. US Treasury Secretary Nicholas Brady said. "We must remain alert to signs of greater-than-expected weakness in the recovery." — AP-DJ

Support still exists for poorer nations

BDay 18/10/91 (156)

BANGKOK — The World Bank-IMF annual meeting ended yesterday with leaders trying to reassure poor nations that they would not be forgotten in the rush to help the Soviet Union and its former communist allies

World Bank president Lewis Preston said: "I was slightly surprised by the depth of the feeling expressed by representatives of both Africa and Latin America that this (aiding the Soviet Union) would divert the attention of the bank from their own problems"

"I have tried at every opportunity to assuage those concerns," he told a news conference

IMF MD Michel Camdessus told the closing session that the fund's efforts to help reform in the Soviet Union and Eastern Europe and to aid reconstruction in the Middle East had won broad support

"But these additional responsibilities must not in any way limit the fund's technical and financial assistance to other members," he said.

Preston said the World Bank had adequate resources to continue to provide help to the developing world.

Both Preston and Camdessus, just re-elected to a second five-year term, called for cuts in arms spending, a theme at this year's meeting that has angered many developing countries

"There is a growing recognition of the need to shift budget priorities away from unproductive outlays, such as excessive military spending," Preston said

The IMF will not make reductions in excessive military spending a condition of receiving loans, a fear of Third World countries, but it is determined to press governments to cut arms spending, Camdessus said

He said arms cut proposals would encounter opposition from some quarters, but that the end of the Cold War meant a chance to start a race to disarm.

On a firmer note however, African nations could expect a sharp reduction in financial assistance from the World Bank unless they kept up efforts to put their economies in order, World Bank officials said.

One senior Bank official said "Africans have to be impressed that they have a lot to lose if they allow financial discipline to disappear"

The World Bank has been lending an average of more than $3bn a year to countries in sub-saharan Africa over the past five years

"If countries do not stay on the reform path we are not going to give them much money The bank won't give much to countries that are not doing all they can," the official said — Sapa-Reuter

Croeser hints at new foray into world capital markets

B Day 18/10/91 (156)

BANGKOK — SA, which has just returned to the international capital markets after a six-year absence, expects to get better terms on its next issue.

Finance Department director-general Gerhard Croeser said he had expected to pay more than the 10,5% coupon on a DM400m bond launched last month. But strong demand for that issue had encouraged him. "Obviously the success of this one has meant we will be able to bring down the rates on the next issue."

He said he would not have been surprised to have had to pay 0,75 or 0,5 of a point more on the bond, which was raised by DM100m on the day of issue

He left the timing of any new deal open and could not give any predictions about a possible coupon on a new bond

He said SA would be "very circumspect" about coming to the market. Government did not want to give the impression of overextending itself.

"There must be a scarcity value That is one of the better ways of getting your rate structure down," he said SA could consider a new bond once the scheduled issue from the Independent Development Trust had been placed

Croeser said about two-thirds of SA's debt was in Deutschmarks and that it had very little exposure in other currencies "This is not very sound," he said SA's debt structure needed more balance

A new issue in european currency units (ecus) was possible, but sterling and the Swiss franc would also be considered

Croeser was in Bangkok to attend the World Bank and IMF annual meeting

The US's Gramm Amendment effectively bars SA's access to IMF funds Also, SA's current account surplus makes it ineligible for IMF loans

"At the moment we have been able to avoid asking . we have applied the brakes to make sure we have a current account surplus," Croeser said

He said an expected upswing in the economy in 1992 would boost imports and push the current account towards a deficit. GDP, which is likely to be flat this year, is expected to rise by 2% in 1992.

But SA's new-found access to commercial bank funds would ease its balance of payments situation, Croeser said

World Bank president Lewis Preston said it was too early to tell whether the bank would consider lending to SA, but that a team of experts had been to SA to study the economic situation.

SA is a full member of the World Bank but does not take an active role in its business.

The country's high per capita GNP makes it a less obvious choice for development loans than impoverished sub-Saharan nations, but Preston said "human resources" lending would be one area to look at. — Reuter.

● See Page 7

Africa in danger of being forgotten

Star 19/10/91

156

BANGKOK — Africa is running the danger of becoming the "forgotten continent" in the wake of the enormous sums of money needed to rebuild the economies of Eastern Europe

Several speakers from African countries at this week's meeting of the World Bank/IMF have expressed fears that the Soviet problem in particular could cause the international financial community to ignore the world's poorest continent

But Lewis Preston, president of the World Bank, played down these fears at a press conference, saying that the financial requirements needed by the collapsing Soviet economy would not impact on the World Bank's existing funding

Despite the reassurances by Mr Preston and Michel Camdessus, the managing director of the IMF, African delegates have left this year's venue rather disconsolate and depressed.

Africa and its enormous problems were hardly ever men-

At the IMF

MAGNUS HEYSTEK

tioned by key delegates at the meeting

"It's a familiar situation," said M Maneca, the Finance Minister of Cape Verde. "Africa is no longer a continent that really counts in the global economy," he said during his address

This is despite the fact that the African continent is currently facing some of its most intense financial and political problems since the end of the colonial area

The economic picture was summed up by Edward Jaycox, World Bank vice-president for Africa "Most of the countries of sub-Saharan Africa have been in an economic free-fall over the last decade

"No goods on the shelves, no spare parts, no chalk in the class-rooms while foreign debt is piling up (currently at $27 billion)"

The situation has not changed over the past five years Africa remains a continent in crisis What has changed, however, is that Africa is of little concern to the international community, which is turning its focus to the rapidly developing economies of Asia and the newly democratic East European countries

"Nobody has an answer to the African crisis," Mr Jaycox said "Africa has chosen consumption over production and has cut its ties with the world economy"

For South Africa the economic upliftment of the sub-Saharan region is of crucial importance More than a quarter of South Africa's foreign trade today is with African countries and any increase in this trade is largely dependant on the availability of foreign trade credits

While the South African delegation here has had "extensive meetings" with delegates of neighbouring countries in Southern Africa, it is known that trade prospects are badly hampered by the lack of foreign exchange

In comments to the SA press, Barend du Plessis, Minister of Finance, expressed some concern about the three major developing free trade areas, the European Community, North America and the newly-announced Asean trade-bloc

"This effectively leaves South Africa, and the rest of Africa out in the cold and will force African countries to take a hard look at establishing its own free-trade areas to compete on global markets

"These developments could even hasten the plans to develop a Southern African constellation of states in the near future," he said

● Magnus Heystek will resume his popular Money Matters column and answer Readers Queries on his return from the IMF meeting next week.

ANC men in surprise appearance at IMF conference

State control needed in SA, says Manuel

(156) ARG 19/10/91

MAGNUS HEYSTEK
Weekend Argus Correspondent

BANGKOK. — Two senior members of the African National Congress have made a surprise appearance at the annual meeting of the International Monetary Fund and World Bank here.

They are Trevor Manuel, head of the ANC's economic planning department, and Tito Mboweni, one of the ANC's economic advisers

According to Mr Manuel they were invited by the IMF to attend this year's conference as observers.

They joined another senior ANC member, businessman Gibson Nthula, who arrived earlier

The two ANC members had to be identified and signed on by members of the official South African delegation, but thereafter they dissociated themselves from the official delegates, turning down an invition to use the offices and telephones in Bangkok

"We have to look and learn what is happening in the real world," Mr Manuel said in an interview soon after his arrival

"I have to admit that we (the ANC) are on a steep learning curve and will use this opportunity to assess what is happening in the economic world

☐ **TREVOR MANUEL:** "Some state intervention necessary in new SA."

"We will use this input in the formulation of the ANC economic policy, which should officially be adopted sometime in February next year," he said

Mr Manuel reiterated his organisation's position in regard to nationalisation and some kind of affirmative action.

"Nationalisation of certain state assets is just one of the small aspects of the proposed ANC's economic policy, but we will certainly not stand or fall by it

"The ANC's economic policy is very much still in the melting pot and much can happen between now and February

He dismissed recent reports about a tax on white wealth as speculative

"The idea was mooted by a certain individual as one of many options to reduce the wealth-disparity in South Africa

"It is by no means an official policy and certainly does not reflect the mainstream thought on this issue

"The whole issue was totally blown out of proportion and caused a negative reaction among whites "

Mr Manuel added, however "There is no doubt in my mind that a certain measure of state intervention and control is going to be needed in the new South Africa

"There is certainly nothing strange about this because recent world history is full of examples where state direction was necessary, especially in the case of severely traumatised economies

"Such was the case in Japan and Germany after the Second World War and is currently also taking place in the unified Germany "

Mr Manuel also said the three ANC members would meet behind the scenes with a large number of people, including members of the IMF technical committees

But no contact was contemplated with the South African delegation

He spoke about the "fine balancing act" which would be required of any future government in South Africa

"I realise that South Africa is only one in a great number of developing countries which are clamouring for vital overseas investment capital

"But we cannot just let our economic policy be determined by short-term measures and tax-incentives which do not have a lasting impact on growth and development," he said.

Getting to grips with the deficit puzzle

156

Star 20/10/91.

BETWEEN 1980 and its peak in the first quarter of 1985, the trade-weighted value of the dollar rose 67 percent, by 1987 it had fallen back to a value lower than the one it started from (see accompanying chart)

Unsurprisingly, the rising dollar went hand-in-hand with an expanding current-account deficit By 1985 this was $122 billion, or 3 percent of GNP

After 1985, despite the currency's rapid depreciation, the deficit simply carried on growing It was $145 billion (3,4 percent of GNP) by 1986 and $162 billion (3,6 percent of GNP) by 1987

Economists were puzzled — and worried

America could not expect to finance such a deficit indefinitely Yet the link between the exchange rate and the deficit — the "international adjustment mechanism" — seemed to be broken

A dreadful fate awaited the world economy

At a meeting of the International Monetary Fund (IMF) and the World Bank, America's deficit and what to do about it often seemed the only topic of conversation

At this year's meetings, which began in Bangkok on October 11, the subject was hardly mentioned

Since 1988 the deficit has narrowed

Last year it was $97 billion (1,8 percent of GNP), this year, according to the IMF's new forecasts, it will almost disappear, thanks to the contributions that America's allies will make to the costs of the war in the Gulf

In 1992, with that factor no longer at work, the slow downward trend will resume (see table).

Popular

In the late 1980s old and new theories to account for the broken link between exchange rates and trade balances became popular

These ideas will command support even though, at this distance, the events of the past decade no longer seem quite so peculiar

The new study by Paul Krugman* of the Massachusetts Institute of Technology examines the theories and the evidence afresh

One group of commentators blamed structural factors for the reluctance of the deficit to fall after 1985

Some argued that American goods were uncompetitive with

IMF forecasts

	Real GNP/GDP % change			Consumer prices % rise			Current-account balance as % of GNP		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
United States	10	-0.3	30	5.4	45	40	-17	-03	-15
Japan	56	4.5	34	3.1	3.4	27	12	19	17
Western Germany	4.5	31	2.0	27	35	35	29*	-05*	06*
France	28	1.3	24	34	33	30	-07	-08	-07
Italy	20	1.3	2.5	65	63	56	-13	-1.2	-14
Britain	08	-18	24	95	59	39	-26	-11	-12
Canada	0.5	-0.9	38	4.8	59	28	-3.3	-28	-23
All industrial countries	26	13	28	4.9	45	38	-06	-02	-05

* Pan-German figures from July 1st 1990

Japanese goods at any price

Others talked of "pricing to market" — the idea that, to maintain their share of the market, foreign producers trimmed profits and held prices down as their currencies appreciated after 1985

A related theory blamed "hysteresis" or the "beachhead effect" — the idea that a market, once lost, is difficult to recapture

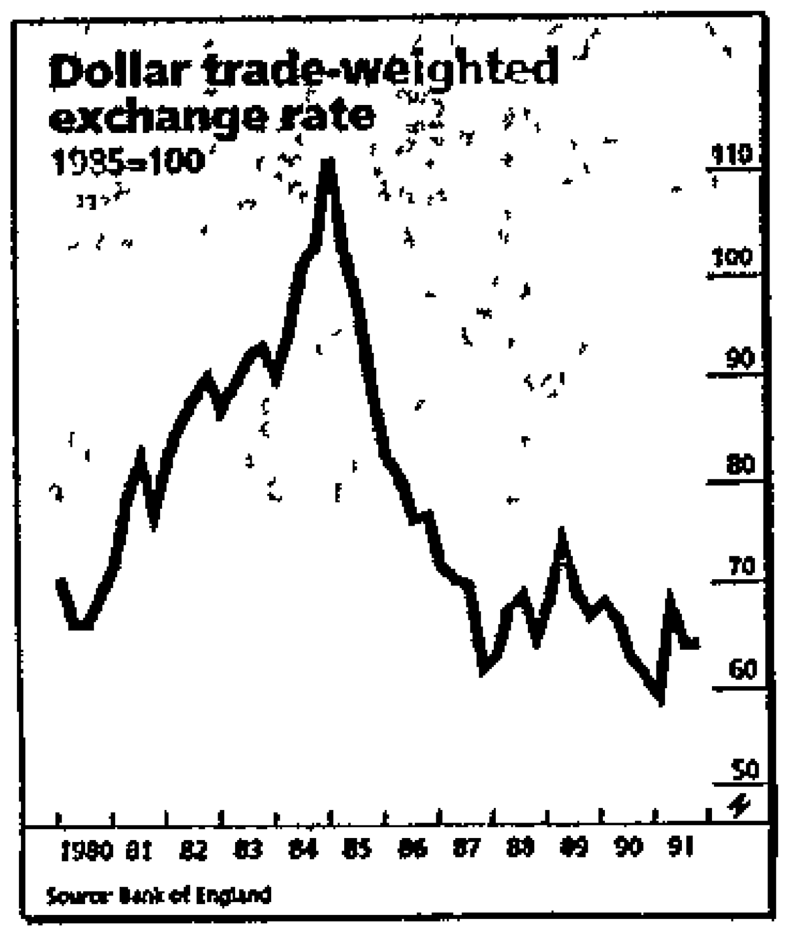
America lost foreign customers when the dollar pushed export prices higher after 1980, a fall in the dollar merely to its level of 1980 would be insufficient to regain them

Another group of economists had long argued that exchange-rate changes were neither necessary nor sufficient for changes in current-account balances

In their view, the "adjustment mechanism" had never relied upon shifts in currencies, on the contrary, such changes were nothing but a nuisance

They saw the 1980s as support for the idea that countries should fix their exchange rates once and for all

Mr Krugman concludes that the evidence favours neither of these groups



Instead, he says, it vindicates the mainstream view, which he puts as follows

(a) exchange-rate changes affect the current-account balance,

(b) this link is stable, and

(c) exchange-rate changes are a necessary part of the adjustment process

On (a), Mr Krugman's review of the evidence is convincing

Supplied with correct data, fairly standard exchange-rate models track America's current-account deficit during the 1980s quite well

("Correct data" means, among other things, excluding computers — a product for which it is notoriously difficult to calculate accurate, quality-adjusted price indices)

In retrospect, Mr Krugman explains, the delay between the dollar's fall and the narrowing in the current-account deficit was because the economy started with a highly overvalued currency, rather than from a position of equilibrium

On (b) and (c), Mr Krugman is on weaker ground

Without knowing anything else, it is hard to see how an examination of one episode could prove that the link between exchange rates and trade balances is stable, or that exchange-rate changes are necessary for adjustment

In fact, as Mr Krugman himself admits, the European Monetary System (EMS) undermines both claims

Intra-European trade balances have varied widely despite semi-fixed exchange rates The Bretton Woods system of fixed exchange rates coped with changes in external balances, and so par excellence, did the pre-1914 gold standard

Within countries regional current-account imbalances are accommodated with no trouble at all Whatever else exchange-rate changes may be, they are not "necessary"

Benefits

Perhaps Mr Krugman should have said "desirable" — ie, that the benefits of flexible exchange rates (the ability to avoid imported inflation, the possibility of a devaluation to restore competitiveness) outweigh the costs (the possibility of persistent home-grown inflation, the inefficiency of segmented markets and uncertain relative prices)

Mr Krugman offers no persuasive evidence on where this balance of costs and benefits lies But note that one of the benefits (eg, a devaluation to restore competitiveness) requires the exchange rate to be a controllable instrument of economic policy One clear lesson of the 1980s is that an unpegged dollar is no such thing

(* "Has the Adjustment Process Worked"? Paul Krugman, Institute for International Economics, October 1991)

— The Economist

Save the Soviets — by hiking the gold price

B/Day 23/10/91

156

Award-winning British financial commentator CHRISTOPHER FILDES reports from Bangkok and offers a golden solution to the world's money crunch.

LONG on goodwill but short on solutions, the 14 414 delegates have headed home from Bangkok Time was when no meeting of the IMF and World Bank was complete without a plan. I now propose mine.

It answers the two questions that hung over the meetings, unresolved. What can be done for the Soviet Union? And what can stop one country's needs from scooping the pool?

My plan is twofold The world's central bankers and finance ministers should agree to force up the price of gold and to move the World Bank to Bangkok.

Gold is the Soviet Union's best bet — its most saleable export and its only bankable asset

Soviet gold production is second only to SA's Grigory Yavlinsky admitted to the IMF that the Union had been selling its reserves to pay its bills, but it still claims to hold 240 tons, and surely has more under the bed The KGB is thought to have a reserve of its own

For a dozen years the Soviet Union has watched the price of gold fall by almost two-thirds At first the IMF and its member countries, prompted by the US, conspired to drive the price down, dumping gold on the market in a series of auctions. Then the gold mining companies learned to sell their production forward as security for loans. Then came the forced Soviet sales.

The world's biggest holders of gold, the central banks, have let if happen For years now they have sold little gold and bought less or none. They just sit on their reserves like self-satisfied hens sitting on addled eggs.

The IMF's figures show that since 1987 the industrial countries' gold reserves have fallen by just over 1% Their value, however, has fallen by a quarter On the IMF's calculations, these countries' loss on their holdings of gold is more than $40bn.

You might have thought that the central banks, holding investments on this scale, would have condescended to manage them to protect their value. You would misunderstand their attitude to gold. They resent it, as a competitor to their own branded products.

How agreeable for a central bank to have a monopoly over the supply of money.

How agreeable, too, for the IMF to issue its own reserve currency — the special drawing right — designed and described as "paper gold" How inconsiderate of providence to have stopped the earth with the genuine article, and what a shame that, for most of history, most people have learned to prefer it.

Providence though, may have known best.

A higher price for gold would be the quickest way, and now almost the only way, to help the Soviet Union It would, of course, help SA too — and, on the cusp of change, how perfectly timed that would be. Many other deserving causes stand to gain, including sub-Saharan Africa

Ghana, Sierra Leone, Mali, Zaire and Zimbabwe all mine gold. Sierra Leone might even be able to pay off its debt to the IMF and borrow some more.

The biggest gainers would be the central banks themselves — and they, too, could use the money. They stand behind banking systems which show ominous signs of strain

While the bankers were talking in Bangkok, Norway's second bank was declaring insolvency and the US's biggest bank, having lost a billion dollars, was passing its dividends. A world with a shortage of credit must want to see its lenders build up their reserves. Western central bankers used to operate a cartel to hold the gold price down — until, 25 years ago, they were driven off, defeated Now they should come back together and buy

That, though, will not placate the developing countries without gold in their vaults or the ground In Bangkok, they grumble why could the Soviet Union, which has not even joined, be allowed to take over the meeting of the IMF and World Bank? It may suit the superpowers, but what is in it for the members?

The World Bank's formal title is the International Bank for Reconstruction and Development. It is, though, based about as far as possible from a developing country — in Washington. The US is its biggest shareholder, with a blocking vote, its chairman is by tradition an American

Time after time the US installs a new chairman with a brief to sort out the World Bank. Every chairman then falls out with the government, and vice versa. Lewis Preston, the newly-installed chairman from Morgan, has already slapped down the US Treasury: "You don't run this bank. I run this bank." His office and the Treasury are four blocks apart. It is as if the World Bank had opted to live next to its mother-in-law.

The arrangement suits neither side, and it leaves the World Bank looking like a company with an old-fashioned grand head office.

It is large, it is compendious, it has a department and a policy for everything, it generates a vast amount of paper and spends a fortune on air-tickets. A group within the bank has been trying to move it to Bonn.

The World Bank should go all the way — to Bangkok The shake-up would bring the bank to its markets and its membership

The members would learn in Bangkok something they will never learn in Washington — what a developing country can do for itself The Thais have sustained a growth rate of between 6% and 10%, and over time have kept their inflation below that of the US It can be done without gold.

For myself, I should need to make periodic visits of inspection, to call on Preston and see how my plan is getting on No doubt the World Bank could run to an air ticket. — Daily Telegraph.

IMF team did its job well

B|Day 23/10/91. (156)

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Dear Sir,

YOUR leader article "Wasted opportunity" (Business Day, October 17) was brought to my attention just before I left Bangkok last week

The article creates the impression that the writer does not fully understand how the IMF/World Bank meetings work, what the conventions are, what the object is of a speech there, or what constraints apply

I have no doubt that, if confronted with the tone of your leader, the distinguished SA bankers and businessmen who were there would demur to your intepretation.

Firstly, it is definitely not good form to "sell" one's country from that platform, as your article suggests should have happened In fact, if a governor were to do so, it would be frowned upon in the circles that count There might be polite applause, but the "offensive" passages would not appear in the verbatim official record In any event, very few bankers attend governors' speeches — they do their thing differently!

Secondly, the "selling job" you seem to demand of me is indeed one of the vital objects of the whole exercise, but, as always, we did it privately in our delegation's offices, at the many receptions and in the corridors In fact, our entire delegation, including our bankers and businessmen, worked harder this year than ever before in view of the exciting prospects now emerging in SA.

Thirdly, yes, our speech this year was indeed more macro-orientated than in previous years (and I mean "our" speech, because its planning and preparation began, as before, many weeks before our departure and it incorporates many strategies and objectives). However, the careful analyst will find meaningful references to several vital issues currently affecting countries and regions such as ours

Did the subtleties condensed into our allotted eight-minute speech perhaps escape Business Day's commentator? They certainly did not escape the people we used as sounding boards for our ideas beforehand, nor those who commented so favourably afterwards!

Fourthly, let's assume the two ANC delegates (who arrived only the Tuesday evening) were out to do a "demolition job" on our efforts They could hardly, at that late stage, carry out their task without some knowledge of our official statement Consequently — so I am informed — they were in fact present during my address, and thus not busy "dissuading bankers" as your leader suggests

In any event, we normally see most international bankers before the Wednesday (when we regularly get our turn to speak), since, in our experience, most of them will usually have left by then

Still, one must admit that an opportunity was indeed wasted — an opportunity for Business Day not only to give its readers an accurate account of our IMF speech, but also to impart some important insights on the matter.

The IMF/World Bank meetings are a most interesting and uniquely functioning assembly of the world's ministers of finance, governors of central banks — in their respective capacities as governors of these two institutions, and accompanied by their various advisers — as well as top executives of the largest commercial banks in the world The truly important action takes place in a peculiar yet fascinating and efficient way — with a style and structure developed over many years.

It is a pity your correspondent, and readers of that leader, missed so much of what really went on, since the SA delegation had a most constructive encounter with ministers of finance, central bankers, other top officials and top international commercial bankers — in the interest of all in our country, regardless of their political persuasion

BAREND DU PLESSIS MP
Finance Minister
Pretoria

Car makers face radical shifts in labour relations

155

6109 20/11/91

PARIS — The 22-day strike which crippled Renault last month cost the company an estimated Ff1,4bn.

"We have a huge amount of change to make in our working systems, and we don't have much time," says union leader Bernard Espel, who heads the Mining and Metals Federation at the confederation Francaise Democratique du Travail.

Renault is not the only company running out of time, and its strike offers some painful lessons for car manufacturers and other industries across Europe To survive Japanese competition, many have begun radically changing production systems. What they have taken longer to understand is that the new systems will not work without an equally radical shift in labour relations

"This is the challenge of the 1990s," says Karl Ludvigsen, a London-based consultant "It is the biggest, most difficult issue facing the motor industry in Europe."

Put simply, the problem is that Japanese-style production systems — with gimmicky names like "just in time" and "total quality" — are highly complex and fragile They can yield huge productivity and profit gains, but they demand close employee co-operation

A strike, or even a big dispute, threatens the whole system

One example Just-in-time production dictates that parts be delivered to a factory at the last minute, slashing inventories and finance costs It can also help give a single assembly line the flexibility to produce different products, but it does away with stocks If one plant stops producing an essential part, other plants in the manufacturing process must shut down

Prof Garel Rhys, of the Cardiff Business School in Wales, says that while France's performance on this score has been particularly bad, the problem is one that faces all of Europe, even Germany

Strategy

Since the Second World War union representatives have had seats on the boards of big German companies, fostering Germany's strong labour-management co-operation But even companies such as Volkswagen have not gone far enough to change work practices, Rhys says, and Daimler-Benz is just starting to face the issue VW, which in recent years has bought labour peace with 6% annual pay increases, is not boosting productivity fast enough to justify such steep wage increases, he maintains.

The labour-management changes being considered are profound In the past, industrial employees were often trained to do monotonous jobs Today, with so-called "lean manufacturing" and automation, workers need to learn many jobs, solving problems and working in less predictable ways

Japanese car makers in Britain have won virtual no-strike contracts from their unions, says academic Chris Brewster In exchange, they offer unions far more access to financial and marketing information than other European countries Industry sources say employee turnover in some Japanese factories has been higher than expected.

To get co-operative employees, many companies, notably Japanese car makers, hire workers only after extensive qualifying programmes.

Many countries have legal limits on weekly work hours, compulsory overtime or flexible schedules That makes it harder to change labour practices in countries such as France and is one reason why Britain is blocking French proposals for EC-wide labour rules

Fiat has tried to deal with the labour issue by getting rid of labour "Fiat more or less says they will never get the Italians to work like the Japanese,' says Rhys. "So their strategy is to become even more automated than they are"

Of major European countries, Italy loses by far the most days to strikes — as much as 1 000 times the number of days lost in Germany, according to the ILO. But labour experts say that just as important is whether strikes lead to sit-ins and severe disruptions — as often is the case in France — and whether workers co-operate when working — AP-DJ.

ILO delegation in SA next year

W/Mail 22/11 - 28/11/91 (155)

Three top jurists make up a crucial International Labour Organisation delegation due in South Africa early next year Government and unions have differing agendas, reports FERIAL HAFFAJEE

A HIGH-POWERED delegation of the International Labour Organisation will jet into South Africa in February next year on a fact-finding mission.

Ostensibly, they are coming out to investigate a complaint against the 1988 amendments to the Labour Relations Act laid by the Congress of South African Trade Unions

But both the major players in the labour arena have other agendas to satisfy For Cosatu the visit could be the ideal opportunity for an international investigation into all South Africa's labour legislation

Cosatu recently accused the government of dragging its feet in extending labour legislation to farm, domestic and publicsector workers The ILO visit could be the vehicle the federation needs to force government's hand in efforts to extend freedom of association for all workers

The government is likely to stress the progress made in South African labour law as a stepping stone for readmission to the ILO. By opening its legislation to international scrutiny, it may persuade the ILO team that its legislation matches up to the best in the world

Government sources this week said that the ILO visit was a welcome development and that it was confident Cosatu's complaints had been satisfactorily dealt with in this year's amendments to the Act.

Three influential jurists make up the delegation They are Sir William Douglas from the United Kingdom, Mr Justice Lallah, a former Chief Justice from Mauritius, and Mr Justice Kirby from Australia

Arriving on February 7, they will start their work in Cape Town Thereafter, they will split up and continue separate investigations in East London, Port Elizabeth and Durban A week later they will meet up in Johannesburg for the final week of investigation. Sessions will be closed and will only be attended by Cosatu and government representatives

Lawyers said this week the areas which Cosatu had raised objections to had been purged in the 1991 legislation and that the commission's terms of reference were "foggy".

Cosatu press officer Neil Coleman confirmed this week that Cosatu would seek to extend the terms of reference of the ILO commission

On returning from his September trip to Europe, which included contact with ILO secretary general M Hansenne, former manpower minister Eli Louw said he was willing to recommend to government that the fact-finding mission receive a broader mandate

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PRIEST ... NO 51 GUGULETHU
THE REV ... TEL

SA knocking at IMF door

By SIMON BARBER Washington (156)

AMBASSADOR Harry Schwarz wants the US to give South Africa the same treatment it is giving the emerging democracies of Eastern Europe.

He is pressing the Bush administration for a written commitment that it will support a South African application for IMF facilities as soon as Pretoria starts to run a balance of payments deficit.

He argues that the administration has done this for formerly communist Hungary and should now do the same for South Africa.

The 1983 Gramm Amendment, which requires the US executive director of the fund to veto loan applications by "any country which practises apartheid" unless the requested loan met certain criteria, also applies to "communist dictatorships".

The law states that apartheid and communism "result in severe constraints on labour and capital mobility and other highly inefficient labour and capital supply rigidities in direct contradiction of the goals of the IMF".

It adds that the proceeds must reduce the "rigidities" and benefit the "majority" of the country's population, and the recipient must be in genuine balance of payment difficulties that cannot be eased by private lending sources.

The US has acceded to Hungary's request that since it is no longer a communist dictatorship in terms of the law, Washington should support its access to the fund as soon as it meets the balance of payments test.

Schwarz wants the same for South Africa.

Such a letter would permit Pretoria to start reflating the economy without fear of depleting its hard currency reserves to the point where it could not repay foreign lenders.

At the same time, a US undertaking would unlock the World Bank's soft loan window, which remains barred to Pretoria

Schwarz said last week he had been unable to convince the Bush administration so far but will keep hammering away until Washington relents

5/11/93

UK pushes for SA access to IMF

Star 15/11/91

156

By Kaizer Nyatsumba
Political Staff

The British Government would continue to press for South Africa's access to the International Monetary Fund and the World Bank, visiting British Trade Minister Timothy Sainsbury said yesterday

Addressing the South Africa-Britain Trade Association, Mr Sainsbury said it was vital that South Africa dealt with its economic agenda "on a different time scale to the political one"

Mr Sainsbury, the first British Trade Minister to visit South Africa in 21 years, said planning for the future could not wait for a political settlement, and it was therefore important that South Africa gained access to facilities of the IMF and World Bank

He said it was regrettable that the Commonwealth had decided against the relaxation of trade and financial sanctions against South Africa, saying sanctions were "yesterday's debate"

However, he welcomed the "positive signal" given by the Commonwealth lifting person-to-person sanctions

Mr Sainsbury told the gathering "Political stability is a necessary but not sufficient condition for success. The trading conditions must also be the most favourable possible This means nothing less than a full-blooded commitment to a market economy and the removal of all barriers to trade"

He said South Africa was facing a number of important economic policy choices, one of which was its future relationship with the region

Mr Sainsbury, who arrived in South Africa yesterday morning on a six-day visit, said the United Kingdom, already South Africa's leading trading partner, was currently experiencing "a further surge of interest" in the South African market. He reported "a sharp increase" in the number of commercial inquiries to both his department in London and its local offices in South Africa

IMF admits it advised on the formulation of VAT

(156)

Sowetan 22/11/91

By IKE MOTSAPI

THE International Monetary Fund has acknowledged that it advised the South African Government on the formulation of VAT, Dr Bernie Fanaroff, chairman of the Vat Co-ordinating Committee, said yesterday.

Fanaroff said the managing director of the IMF, Mr Michel Camdessus, had responded to "our complaint about his organisation's interference" as to how VAT should be formulated

He said "Camdessus emphasised that the IMF had advised the Government on VAT to protect the poor It was necessary to ensure that the most vulnerable and needy got appropriate relief.

"This advice was given in February 1991 to the Government when a team of IMF financial experts visited the country," he said

Fanaroff said his committee had subsequently lodged a formal complaint with Camdessus and demanded to know why the IMF had "interfered in South African issues"

He warned consumers, especially the poor, that the Government was considering taxing zero-rated foodstuffs by March 1992

"Our information is that the Government is preparing to do this. If they go ahead this will hit the poor very hard South Africa's poor are in crisis and this move will make it even worse

"Ironically, the Government has not even taken the advice of the IMF," Fanaroff said

IMF discipline for Zimbabwe policy

156

B/Day 28/11/91.

HARARE — The IMF has been called in to play a pivotal role in Zimbabwe's ailing structural adjustment programme, following a considerable hardening of attitude by donors and lenders

Sources said yesterday that following a series of blunders, particularly in monetary policy, the World Bank and other donors are insisting that the IMF become involved in lending for the programme before any of their desperately needed funds are disbursed to the government

Zimbabwe is seen by the financial observers as suddenly under unexpected control of the two institutions This is a far cry from the original aim of the structural adjustment programme (SAP), revealed to donors in Paris in March as a "home-grown" programme that would only call on the IMF for a verbal endorsement of the programme to give it respectability

"More and more the bank and the fund have moved into the driving seat," said a senior Western diplomat.

Harare's World Bank regional representative Christiaan Poortman said this week that a Zimbabwean government team would fly to Washington in the second week of December to negotiate the terms of a $125m loan from the bank as balance of payments support for Zimbabwe But, he added, "by that time they (the government) should have at least an initial go-ahead from the IMF on the programme"

Sources say that the IMF's support will be a condition of the World Bank loan, as well as the release of funding for the structural adjustment programme from many other donor agencies and countries who have been hanging on to disbursing cash pledges until the loan is tied up

An IMF mission wound up its work in Harare on November 15 after a week of hard bargaining with the government over a loan of about $400m, on semi-commercial terms

A government application for the loan to be granted at concessional rates of interest under the IMF's enhanced structural adjustment facility (ESAF), is to be heard in Washington on December 11.

Zimbabwe has become desperate for a major injection of foreign currency to rescue its critical balance of payments.

There has also been growing dissatisfaction with the government's performance with monetary reform.

Economists cite the announcement and subsequent abandonment of an ill-conceived import deposit scheme, the hasty handling of the 35% devaluation in August and September, the inadequate rise in interest rates and Reserve Bank purchase of government stock.

Much of this has accounted for an inflation rate of about 25% and a growth in money supply of over 40%. Economists say both factors are seen as severe threats to the programme, as well as a likely stimulus to already deep public discontent over the spiralling cost of living

"With the emergence of stabilisation problems, the IMF is becoming more important," Poortman said "Stabilisation is what their job is."

Donor representatives expressed pleasure at the IMF's imminent involvement.

"It's just what Zimbabwe needs," said one "The discipline wielded by the IMF will keep the programme on target" — Sapa

Battle against communism has been won

Third World knocks on capitalist doors

156

Sowetan 5/12/91

WASHINGTON - The United States and its rich allies have won the battle against communism.

But now they must show the developing world that capitalism can deliver the goods

Poor countries are turning their backs on communism and embracing capitalism as they seek to end years of economic stagnation and bring some measure of prosperity to their beleaguered people

Kemper Financial Services chief economist Mr David Hale says "We have the potential over the next 10 to 20 years to have a truly global-market economy

"The big challenge is going to be bringing the Third World into this arena "

This will require sacrifices by recession-hit rich nations, which must buy more from poor countries and slash their own spending in order to give to developing nations

They must also forgive more of the R3,6-trillion Third World debt

As countries from Romania to Nicaragua adopt capitalism, about four billion people will enter the global marketplace and compete for goods and capital

That could lead to a new age of prosperity - or trade wars as nations jealously guard their turf

European Bank for Reconstruction and Development president Mr Jacques Attali says

FOCUS

"Violent rivalry for territories and resources may well be the paradoxical result (of) the disappearance of competing ideologies and the generalisation of the market economy "

African Development Bank president Mr Babacar N'Diaye says many Africans are already worried that their region will be pushed to one side as rich nations focus their attention, and their money, on helping eastern Europe and the Soviet Union

He believes the answer is for Africa not to view Eastern Europe as a competitor for the West's scarce resources, but as a potential market for African goods

Harvard University's Professor Robert Lawrence says "This revolution is real and their (poorer nations') commitment is great The issue is to make this change permanent "

The first challenge will be to bring a current round of international trade talks to a successful conclusion

The talks - the so-called Uruguay Round - have dragged on for five years as the US and the European Community fight bitter battles over agricultural trade

Many developing countries, seeking to revitalise their moribund economies, have already begun to open up their once tightly closed markets to more imports

But economists say rich nations will have to respond in kind and knock down trade barriers against Third World goods, including farm products and textiles

Both the US and the EC have recently signalled they believe an international trade pact could be hammered out before the end of the year

Some economists, including Kemper's Hale, think it should not end there Hale sees the need for another round of gruelling trade talks in a year or two

The second challenge for the United States and its allies will be to try to ensure that demands for cash from fledgling capitalist countries do not trigger a surge in world interest rates, which would stunt global growth

The International Monetary Fund has estimated that an extra $100 billion a year may be needed to fund economic reforms in eastern Europe and Latin America, plus the rebuilding of the Middle East after the Gulf War

But that money won't be available unless rich nations like the United States and Italy cut back their big budget deficits and free resources for the developing world

Washington's poor record for dealing with its burgeoning deficit, despite the exhortations of its allies and the IMF, does not engender much optimism

Even cash-rich countries such as Japan, which has played a major role in funding Third-World development in conjunction with the World Bank, are starting to emphasise that their resources are not unlimited

But the developing world is not powerless, economists say

The West's awareness of environmental dangers posed by industrialisation of the Third World gives developing countries leverage in prying concessions from richer nations

Concern about a possible flood of economic immigrants is another form of leverage It is part of the reason why the EC is talking of granting trade concessions to eastern Europe - and the United States is discussing a free-trade zone with Mexico

In May, rich nations set up a Global Environment Facility with the World Bank to provide money to poorer countries to limit ecological damage due to economic development

"The next millennium will be terrible or magnificent, depending on our ability to limit our dreams," EBRD's Attali says

"Not everything is possible, nor should be We must have the wisdom to curtail our dreams " - *South African Press Association-Reuter*

IMF bolsters staff to aid Moscow

WASHINGTON — The IMF hoped to increase its staff 13% during the next three years to help the Soviet Union into the capitalist fold, monetary sources said this week B'bay 13/12/91

The fund's management had told the IMF board it wanted to hire about 280 staff on top of the 2 200 it currently employed, they said

Some sources said the board was sympathetic to the management request, although they added it was not yet clear if all the extra people were necessary

"Since we're asking the fund to do a lot more, they're going to have to get a fair amount more," said one source, who declined to be identifed. (156)

In what some sources saw as an implicit recognition by the IMF of the potential for a break-up of the Soviet Union, the fund has split its work on the country into four divisions, each handling different Soviet republics

The IMF is cutting back sharply on its economic monitoring of about 50 member nations to devote more staff time to helping the Soviet Union — Sapa-Reuter

Moneylenders now own the temple

156

REVIEW OF THE YEAR

W/Mail
19/12/91 - 2/1/92

Whatever happened to the Great Economic Debate? **REG RUMNEY** *argues the results have already been decided by what is happening elsewhere in the world*

AN AIR of unreality pervades economic debate in South Africa. All over Africa and Latin America governments have sold, or are selling off, state enterprises In South Africa the department charged with privatisation sits on its hands, paralysed by politics

Even Sweden, long the model for those looking for a third way between communism and capitalism, and never a great nationaliser anyway, has started to sell off stake in private companies

Last month, the new non-socialist government, moving to deregulate Sweden's economy, proposed to sell state holdings in 35 companies

All over the world governments have embraced, in some cases zealously, deregulation and liberalisation of markets In South Africa, a lot of laws have gone but the government would be advised to move cautiously for fear of sparking a firestorm of public opposition

Zimbabwe Industry and Commerce Minister Kumbirai Kangai announced recently the government was gradually removing subsidies on some basic consumer products, as well decontrolling prices of most basic consumer goods.

Argentina has gone the whole hog, deregulating everything it possibly could

Now South Africans watch in almost disbelief as their country joins the world again

As we do, we will find that economic choices are as limited as political policies proved to be

What is the lesson of the success of the Comprehensive Anti-Apartheid Act and boycotts and sanctions measures, especially the perhaps mis-named "financial sanctions"? Surely that no nation can for any length of time flout the wishes of the world community

As it is in politics, it is even more so in the world of money

Never since the Reformation have a set of ideas been so dominant in the world It may be stretching a metaphor, but the World Bank-International Monetary Fund is the new Catholic Church, and the US president the new Pope

For some on the Left, the IMF and World Bank are modern twin demons of capitalism Conservative economists generally think the more IMF involvement the merrier

It's not that simple, of course Access to IMF credit represents a stamp of approval which makes it possible for South Africa to borrow abroad The IMF and World Bank are full of clever people with what seems like good advice.

But should one avail oneself of IMF and World Bank loans?

If you really have to IMF loans are short-term and for countries having balance of payments problems World Bank loans are aimed at development, but its poor track record in Africa and the danger that the money may be squandered on prestige projects means we may not want to avail ourselves of them, and if we do we should direct the loans to specific areas with care.

There is some feeling that IMF assistance might be inevitable — if and when South Africa has another boom A booming economy would mean capital equipment would flow into the country to manufacture goods to supply a new and vigorous demand. Money would flow out to pay for that, and this would eat into the balance of payments

But forget, for the moment, about the IMF and the World Bank

Wealthy nations don't need the crutch of bridging finance or long-term aid And, the common wisdom goes, to create wealth South Africa needs private capital investment and to be able to export.

To export South Africa will have to continue — possibly at better odds — to be a part of the General Agreement on Trade & Tariffs (Gatt) Here again we had better take note of the trend in other countries of cutting protective tariffs, the taxes governments impose to keep imports out and help local industries manufacture replacements.

On foreign investment, South Africa should heed the lesson of two recent big disinvestments Pilkington of the UK is about to sell its 48,4 percent interest in Glass SA for R525-million to Plate Glass and Shaterprufe Industries Swiss-based Nueva Holding has announced it will sell its 51,6 percent interest, valued around R52-million, in the Everite Group's holding company, Everite Holdings This, when disinvestment pressures have dissipated

Overseas firms are not exactly falling over themselves to put their money into Africa They will have to be enticed here

If it doesn't want to put off entirely any potential investors, any new government will have to consider sweeping economic change with care Nationalisation programmes may have seemed sensible at other times In South Africa now it will be seen as a mark of the macro-economic populism that wrought disaster in South America and Africa.

This is not to say economic choices are completely absent Economic direction still has to be moulded by any government, and democratic governments are answerable to their voters Redistribution is still a burning item.

So there's an outside chance populist pressur may lead to large-scale nationaliation The pre sure will be on for more social spending to redre historical imbalances Protectionism may snea in, cloaked as patriotism.

But these would be political decisions wit economic consequences, not choices made wi the best economic outcome in mind

In the end economic debate is more likely to b about competition policy than nationalisation; tl Budget deficit before borrowing rather than fr housing for all, the level of taxes rather than th direction of the five-year-plan

In other words, the minds of economic pla ners will be exercised with highly technical dec sions No one is going to get away with uprootin the entire economic system — unless the wor order undergoes another massive upheaval, ar capitalism collapses this time round

For now a modern Messiah is going to find difficult to drive the moneylenders out of the ten ple: they own it.

IMF predicts moderate global growth

156

8 Dec 2/12/91.

SANTIAGO — Economic recovery in industrial nations appears to be slower than expected and the world economy could grow less than forecast in 1992, IMF MD Michel Camdessus said last week.

The IMF had projected a moderate world recovery next year based on a 2,75% rate of growth in industrialised countries.

Camdessus said in recent weeks signs had pointed to a less solid recovery of the US economy The economic situation in other industrialised nations also looked more fragile

Speaking at the UN Economic Commission for Latin America and the Caribbean, Camdessus said growth in developing nations would also be slightly under IMF forecasts

Latin America would achieve a real growth rate of 2,25% in 1992.

Camdessus said most Latin American countries had undertaken structural adjustments, slashed their fiscal deficits and brought inflation under control

A large group of countries could expect to grow between 4%-5% next year, among them Mexico, Venezuela, Colombia, Peru and Chile.

Camdessus said there was room to increase saving levels worldwide by cutting unproductive spending, particularly military budgets.

The additional saving could be enough to finance the rebuilding of Eastern European economies, fund reforms in the Soviet Union and repair Gulf war damage without having to reduce aid to developing nations. — Sapa-Reuter.

SA's on the way back to IMF

156

S/Times (BUSS) 22/12/91

By IAN SMITH

AMERICAN action to lift the Gramm Amendment which has blocked South African access to the International Monetary Fund and effectively the World Bank since 1983 is expected in the new year.

Repeal of the legislation would have dramatic implications for the economy and could lead to a solution of one of SA's biggest problems — Government spending

It would also have a major psychological impact on foreign banks in their dealings with SA. An economist says "Access to the IMF would be seen as a green light by most international bankers"

SA officials are reluctant to talk about strategy to lobby for the repeal of the amendment

But they are "cautiously optimistic" that the first steps to repeal the legislation will be taken soon.

Sympathy for SA's case is increasing in the US It has been helped by the "fair, objective and sympathetic" reports from three World Bank missions to SA in the past year

SA has remained in good standing with boath the IMF and the World Bank in spite of the "arm's length" dealings in recent years

The Gramm Amendment requires US representatives, who dominate the IMF votes, to seek Congress's approval before allowing additional loans to "any country engaging in apartheid"

Although the amendment does not apply directly to the World Bank, SA strategy over the years has been to avoid any application which would bring its policies into open debate.

SA would probably not qualify for assistance from the IMF, which tends to concentrate on short-term loans to countries with balance of payments problems; because it has maintained a strong surplus

Barred

It is likely to continue in surplus until a new growth cycle increases demand for imports

The last time SA had recourse to IMF facilities was in 1982

SA was also barred from World Bank funds because its per capita income was too high

But all that has changed The bank is reassessing the classification in view of the erosion of earnings levels throughout the 1980s

The new SA, with its huge developmental needs, will stand a much better chance of soft loans from the World Bank

The main impediments to tight control of Government expenditure include high expectations in social development like housing and education

The three World Bank missions looked specifically at macro-economics, housing and education

Econometrix director Azar Jammine says "Access to the World Bank would be tremendous One of the greatest advantages is the fact that the World Bank would impose strict conditions, which would include assurances that Government spending would not exceed certain limits"

He also believes that the IMF could be persuaded to relax its restriction on loans to countries with a balance of payments problem because of SA's influential position in sub-Saharan Africa and its special problems

Road

Reserve Bank Governor Chris Stals does not believe SA will run into balance of payments difficulties until the gross domestic product growth rate approaches 4% to 5% a year

That could be a long way down the road

US Assistant Secretary of State for Africa Herman Cohen said in an interview with Leadership magazine this month that the US would remove its objections to an IMF facility as soon as SA faced a balance of payments deficit

Dr Jammine says the increase in Government spending is the cause of the economy's decline in the past 20 years

Gramm to stay, say diplomats

(156) JONATHON REES

PRETORIA — SA-based US diplomats yesterday poured cold water on reported suggestions of an early repeal of the Gramm Amendment, which has restricted SA access to IMF loans since 1983.

With the 1992 US presidential election looking to be a closer contest than earlier predicted, there was little sentiment in Congress or within the Bush administration to take the political risk of pushing for further removal of restrictions against SA, sources said

The 1983 Gramm Amendment requires the US to vote against IMF, and effectively World Bank, loans to SA until certain conditions are met relating to labour and capital mobility in SA.

The diplomats said the administration was unlikely to take the risk of scrapping the restrictions while the election loomed.

Since President George Bush lifted the Comprehensive Anti-Apartheid Act in July, only one of the 142 city, state and county governments with economic sanctions on SA have moved to lift these restrictions. 24/12/91

It appeared, the source said, that only approval from ANC president Nelson Mandela for the lifting of the curbs would persuade the local governments to restore trade and other links.

I. M. F. - 1992

Visitors to tackle Gramm Amendment

PRETORIA — US congressmen visiting SA are to raise the issue of the Gramm Amendment — which prevents SA from obtaining an IMF loan — in congress on their return home. B(Day) 10/1/92

Chairman of their fact-finding mission, David McCurdy, said at a news conference in Pretoria yesterday that most of the elements of the Gramm Amendment had been complied with, but the IMF provision prevented it from being lifted

The issue of the Amendment was raised at a meeting with Foreign Minister Pik Botha yesterday

McCurdy said if parties to Codesa would indicate what they believed should be done about the issue, "that would be most helpful (ANC president Nelson) Mandela enjoys a lot of credibility in the US and any statement he would make would have a lot of impact" (156)

He said there was hope in the US after real signs of progress in resolving outstanding conflicts in the move towards a democratic society "We will take this message back to Washington"

Botha said he had had a useful exchange of views with the delegation "I do hope they will go back to the US with the kind of perspective which will assist us in lifting whatever sanctions remain." — Sapa

Pik defers challenge to ban on IMF loans

BD 29/1/92 (156)

LINDA ENSOR

CAPE TOWN — The time was not right to risk a congressional debate in Washington on the Gramm Amendment, which blocked SA's access to IMF loans, Foreign Minister Pik Botha told a news briefing yesterday

"I would be hesitant to risk a debate now as I am not yet convinced that the majority in the House of Representatives would vote in favour But there might be other means to achieve the same purpose," Botha said

He said that in order to compile a Budget that would stimulate economic growth in SA it was necessary for government to have the reassurance that SA would be able to draw on IMF facilities if it ran into balance of payments problems in 18 to 24 months' time.

Botha said that SA had complied with all the political conditions of the Gramm Amendment but did not presently have balance of payments problems for it to qualify for an IMF loan.

Our political staff reports Botha yesterday acknowledged that he was thinking of retirement.

The second-longest serving foreign minister in the world after Germany's Hans-Dietrich Genscher, Botha will have held his post for 15 years on April 1.

Questioned at a news conference yesterday about whether he hoped to serve in a soon-to-be established interim government, Botha smilingly allowed that he was "getting on in years"

Talking about the time when he would finally step down, he said "I can feel it in my bones — it's approaching."

But he added that whether he served in an interim government had little to do with his personal preference

Foreign Affairs insiders said last night dismissed speculation that the 59-year-old Botha might soon call it a day.

IMF credit 'likely' this year

SHARON WOOD

SA could regain access to IMF credit facilities by the end of the year, boosting its growth performance to more than 4% in the next three years, Standard Bank said in its Long-term Economic Outlook. B|D ay

Standard Bank was confident that political negotiations would remain on track and this would filter through to more healthy economic growth during the '90s 30|1|92

However, forecast economic growth rates of between 4% and 5% by 1994 hinged on SA's ability to run a deficit on the current account of the balance of payments "This will not be possible this year, but once SA regains access to IMF credit facilities and relations with foreign capital markets return to normal, the constraint posed by the balance of payments will ease substantially."

SA's relations with the international financial community would probably be normalised within the next year or two (156)

Foreign perceptions of SA had already improved, although some remained tentative This was evident in the improved access to short-term foreign finance and an enhanced position in international capital markets "All these developments have contributed to a much improved overall balance of payments position."

Stronger growth in exports, as a result of the removal of sanctions in 1992 and stronger world economic activity, would further improve the balance of payments position

'Access to IMF credit by 1992'

CT 30|1|92 **Business Editor** ISB

SA COULD regain access to IMF credit facilities by the end of the year, boosting its growth performance to over 4% in the next three years, Standard Bank said in its Long-term Economic Outlook

Standard Bank was confident that political negotiations would remain on track and this would filter through to more healthy economic growth during the nineties

Old Mutual and Amalgamated Banks of SA (Absa) economists forecast a gradual decline in inflation and interest rates in 1992, with consumer spending remaining weak

Both stress the need to limit government expenditure, and warn that little tax relief can be expected in the Budget on March 18

Old Mutual chief economist David Mohr says in its Economic Monitor that it is "very encouraging that exports of manufactured goods were the main driving force behind the increase in overall exports

"This bodes well for the economy in general, as it will improve the balance of payments position, which is a prerequisite for renewed growth"

This, he points out, is "a major factor behind the healthy current account surplus"

The long-awaited relaxation of monetary policy will probably be "of a moderate nature compared to previous cycles

"Moreover — given the consistent upward pressure on government spending and tax revenues being adversely affected by the recent weakness in the real economy — tax relief in the 1992/93 Budget will probably be very moderate"

Mohr forecasts a growth rate of between 1% and 2% for 1992 He expects inflation to average about 14,5% in 1992, compared with an estimated 15,3% in 1991 "with the year-end inflation rate possibly below 13%"

Absa economists forecast in their quarterly Economic Monitor that the growth rate will be about 2% in 1992 and inflation will average between 12% and 13%.

They do not expect the effective rate of exchange for the rand to drop sharply and think it could "even rise moderately in the short term"

GROWTH AND THE GRAMM AMENDMENT FM 31/1/92

Time to test Congress

156

We are no strangers to protestations of a forthcoming year of government frugality. So while we were pleased to hear President F W de Klerk's speech on parsimony last week, we preferred to weigh political realities — and they don't add up to lower taxes or less spending

Codesa, moreover, has clearly brought to a halt the financial and tax restructuring this country so badly needs to encourage and sustain economic growth. There is another constraint — arguably more serious — imposed by another land It is the Gramm amendment which requires any SA application for balance of payments support from the IMF to be referred by the US ambassador to the fund to Congress.

Up till now, Pretoria has avoided an IMF application precisely because it judged that its social policies would not pass muster in a congressional debate Despite profound political reforms, Foreign Minister Pik Botha still believes a House of Representatives vote would go against SA.

Clearly, what he would prefer is the removal of the amendment itself. Political debates in America are fraught with danger given the predeliction of its politicians to special bargaining

Against that must be balanced the serious harm that prolonged recession is doing to this country's productive resources — and the danger that government might attempt a political palliative by reducing monetary stringency That would set back economic recovery not by months but years

Some informal assurance needs to be attained from the Bush administration that it will shortly remove its block on IMF facilities If this is not possible, perhaps the congressional debate might be worth the gamble. ■

IMF gloomier on growth outlook

STAR 3/2/92

(156)

WASHINGTON — The International Monetary Fund (IMF) has slashed its forecast for growth this year in major industrial nations and voiced concern about the outlook for Europe

Western officials say the new forecast, presented to policymakers from the Group of Seven industrialised nations, shows growth of a meagre two percent this year

That is better than last year's estimated 1,3 percent performance, the worst in a decade, but well down from the 2,9 percent forecast the IMF made four months ago.

That is bad news for the US because slower growth overseas will mean less demand for its exports, which have been one of the few bright spots for the US economy in the past year

The US won the grudging acceptance of its G7 allies — Britain, Canada, France, Germany, Italy and Japan — that world growth was too slow, but failed to persuade them to adopt a common stratgey

A senior US official said Washington believed the IMF forecast for growth in both the G7 as a whole and for the US in particular was still too optimistic

The IMF looks for US growth this year of 2,1 percent, while the White House expects year-on-year growth of 1,5 percent

But what apparently caused the most controversy at the G7 meeting was the IMF's analysis of the economic situation in Europe

The IMF expects the European members of the G7 — Britain, France, Germany and Italy — to register growth this year of 1,5 percent, but is worried that it could turn out even worse

German officials complained about what they called a one-sided analysis by IMF managing director Michel Camdessus that seemed to blame high European interest rates, particularly in Germany, for the poor outlook

Helmut Schlesinger, the head of Germany's central bank, said "The managing director of the IMF, in a strong, somewhat one-sided, but not personal reproach, represented the situation in such a way as to say that interest rate policy measures had to be taken to strengthen growth"

Mr Camdessus had dwelt on what the IMF official regarded as high European interest rates

"Naturally, the finger points at us," the Bundesbank president said

Germany shocked and dismayed some its G7 allies last month by raising its key interest rates.

Because their currencies are linked to Germany's through the European Monetary System, the other European members of the G7 have had to keep their interest rates high as well

G7 officials said that the IMF argued for a different policy mix in Germany — a tighter fiscal stance coupled with lower interest rates

That would allow other European countries to ease monetary policy, particularly Britain, where lower rates would provide a needed tonic

Paradoxically, both the IMF and the German government seem to agree on their forecasts for German growth this year — two percent — although the fund's forecast only applies to the former West Germany, not to the country as a whole

The two sides seem to agree that Germany's economy needs to cool off this year after overheating last year

But what they disagree about, G7 officials say, is the mix of policies needed to set the stage for faster European growth in 1993 — Sapa-Reuter

AFRICA

Economically on course, Zambia gets $71m loan

BIDay 5/2/92 (156)

LUSAKA — Zambia, one of the world's most indebted nations, had paid more than $50m of arrears to the World Bank, allowing it to draw fresh funds from the bank, Finance Minister Emmanuel Kasonde said yesterday

It was able to draw $71m from an $80m tranche of a World Bank loan suspended when the government defaulted on arrears payments last September, Kasonde said in an interview

The IMF and donor nations also suspended assistance because of the default and the failure of the government of former president Kenneth Kaunda to implement economic reforms agreed with the IMF

"We paid what amounted to about $51m for 1991 in arrears with the World Bank We are on track and the other donors are coming up with their share of the 1991 obligations We shall be discussing the 1992 share in coming meetings in Paris in March," Kasonde said

The minister said a bridging loan used to pay the arrears was put together by Citibank of the US with the help of Canada and some Nordic countries This would be repaid as soon as Zambia had received the funds from the World Bank

A system worked out to help Zambia settle more than $1bn in arrears with the IMF was also on course

"We are back on track The IMF has issued a letter of no ojection to the World Bank and we have started to accumulate our credits, and depending on whether we keep our benchmarks in the next three years, we can get our credit back," he said

Last Friday, in his first budget since the Movement for Multi-Party Democracy defeated Kaunda's Unip in October, Kasonde devalued the kwacha by almost 25%.

He presented a budget of 90-billion kwacha ($720m) with a deficit of 10-billion kwacha ($80m) which he said would be funded through donor support

Kasonde said Zambia had already put together an economic framework for 1992 on which the World Bank was expected to pass judgment soon

"The question is to what extent we shall be successful in rescheduling the debts and persuading donors to write off certain debt to Zambia at the Paris Club meetings (of government creditors)," he said

Zambia would need an estimated $700m to $800m in balance of payments and import support for 1992, Kasonde said

New World Bank president Lewis Preston is expected to arrive next Sunday on a two-day visit to Zambia — Sapa-Reuter

IMF rejects spending cut for whites

ARG 7/2/92 (156)

Report supports rapid economic growth

HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — Top officials of the International Monetary Fund have concluded that it would be unwise to significantly reduce public expenditure on whites as a means of redistributing wealth in the new South Africa.

They believe such a policy would do little to relieve the poverty of blacks and would be less effective than the alternative of rapid economic growth

In a long-awaited report by six senior managers and economists, which draws on the findings of an IMF investigation conducted inside South Africa last year, the officials also suggest that rather than trying to narrow the wage gap as a means of equalising incomes it would be better to concentrate on improved training and employment opportunities for blacks

While the report is not binding on the IMF's directors, who make the final decisions on loans and investments, it is the most detailed and clearly defined outline of policy on South Africa to emerge from the organisation and it is likely to serve as a basic guide in dealings with whatever government emerges

The report is also critical of the existing tax structure in South Africa and finds that the tax burden on the white community is "relatively high even by industrial country standards" and that raising taxes any further would bring with it the risk of "heightening disincentive effects" — apparently a clumsy euphemism for the flight of capital and brainpower from the country

Dealing with the "poverty profile" of South Africa, the report notes that the reduction in economic growth which accompanied sanctions and domestic uncertainty in the 1980s, resulted in "a slowing of the earlier trend toward a more equal distribution of income and led to a sharp rise in the proportion of the black labour force outside the formal sector of the economy, to its present level of over 40 percent

"The main conclusion to be drawn is that poverty in South Africa is so severe that redistribution policies, which alone will not be adequate to counter it, must be supported by policies designed to place the economy on a higher growth path Only then could the economy be expected to generate the resources necessary to satisfy the needs of the least privileged sectors of society on a sustained basis"

The report acknowledges that the narrowing of the "wedge" between white and non white wages was largely responsible for the improvement in the share of income by blacks over the past two decades.

But it adds. "For purposes of policymaking, this finding suggests that future improvements in income distribution between the races will need to derive mainly from better training and better employment opportunities for non whites rather than from a further compression of the wedge between wages for different racial groups"

Budgetary priorities in recent years had shifted towards social goals and a comparison of South Africa's overall level of social spending with that of other countries at a similar stage of development suggested that it was relatively high by international standards

"This comparison also suggests that the scope for further compressing non-social spending in South Africa is limited and therefore implies that social expenditures will need to be reordered if the budget is to attend to the needs of the least privileged groups of society without significant resort to deficit financing or to higher taxes

"The examination of the per capita level of social spending by different racial groups indicates that, despite some progress in recent years, South Africa's budget still reflects very marked differences between the races"

IMF warns SA against high taxes

S Times 9/2/92

156

From Simon Barber in Washington

ANY attempt to redistribute wealth in South Africa through a state spending spree, spiralling wage demands or increased rates of taxation will be self-defeating, a study prepared by the International Monetary Fund warns.

The report, Economic Policies for a New South Africa, suggests that, even if South Africa's economic policymakers get most other things right, unchecked wage growth and budget deficits will seriously impede the development of a more equitable society.

In its timing and contents, the study is clearly designed to deliver a healthy jolt of reality to South Africa's economic debate. Significantly, the authors do not think the nationalisation question is worthy of discussion.

In a blunt message to both unions and employers, they state: "The effect of high wages could be to raise the inequality of income distribution by keeping a much larger portion of the working population underemployed and, through lower economic growth, by limiting the scope for fiscal redistributive spending."

Likewise, the more resources the state "appropriates for current expenditures", the fewer there will be for "capital accumulation" — which, in turn, means "less growth to generate resources in the future".

As for taxes, the "net burden" on whites — the portion of their tax bill for which they get nothing back from the budget — is 23 percent, among the highest in the world.

To heighten it further could have a growth-crippling "disincentive effect".

A better way to raise revenue is by improving the efficiency and equity of the tax system, broadening the tax base and changing the mix between direct and indirect taxes, says the report.

Cutting fat off the budget — administrative costs and salaries and defence outlays being the most obvious places to start — can also help. However, the authors are not particularly hopeful that a new South African government is going to shrink the removal of apartheid-spawned duplications notwithstanding.

To counter the expectations raised by South Africa's political transformation, the authors demonstrate that, even assuming per capita social expenditures are made the same for all, the net increase for blacks will be extremely limited.

Positing, optimistically, a growth rate of four percent in 1995, plus a pupil-teacher ratio of 30 to 1 and a standard teacher salary of R26 229, equalised annual per capita education expenditures at public schools would work out at around R1 377.

While, for whites, that would represent a precipitate drop nearly of two-thirds from the 1990 figure fo R4 087, for blacks it would be an increase of just R470 from R907, or a little under half as much again.

The corollary to this finding — which is also echoed in public health and social pension expenditures — is that "redistribution policies alone will not be sufficient to ensure a sustained overall improvement in living standards".

Rather, such expedients "will need to be supported by policies aimed at placing the economy on a higher growth path that would generate employment ... and provide the budgetary base for raising the level of social spending."

SUNDAY TIMES, February 9 1992 9

IMF says poverty in SA 'critical'

THE International Monetary Fund has said that poverty in South Africa had reached such critical levels that the redistribution of wealth would not be enough to erase it. (156)

The IMF said in a report released in Washington this week only a higher growth rate would allow the needs of the underprivileged to be met.

The negative effects of apartheid must be overcome through better training and the creation of jobs for blacks, it added. Citizen 9/2/92

An increase of 3,5 percent in the growth rate would result in an increase from eight percent to 27 percent in the ratio between investment and the Gross National Product.

IMF warns against SA redistribution

B/Day 10/2/92. (156)

WASHINGTON — A report by a team of IMF economists warns that any government in the new SA will have little scope to redistribute wealth through increased taxation without wrecking the country's growth prospects

The study, entitled Economic Policies for a New SA, also notes that SA will start running a deficit on the current account of its balance of payments as its access to foreign capital increases — thus becoming eligible for IMF standby credits

The study argues strongly against fiscal expansion to meet post-apartheid social needs, stressing instead the desirability for increased government savings to stimulate investment and capital accumulation

The authors warn against excessive real wage increases, which they argue will aggravate unemployment, hamper growth, reduce resources available to government for redistribution and prolong racial disparities

Income inequality should rather be addressed through "better training and better employment opportunities for non-whites"

The limits on redistribution are dramatically illustrated by calculations of various categories of per capita social spending once racial disparities have been removed

SIMON BARBER

Assuming a 3,5% GDP growth rate, equalised per pupil education expenditure could only be expected to reach about R1 345 by 1995, the study finds While this would be a massive drop for whites, who presently enjoy a figure of over R4 000, it would only represent an extra R340 for blacks

"Redistribution policies alone will not be enough to ensure a sustained overall improvement in living standards, but will need to be supported by policies aimed at placing the economy on a higher growth path"

The authors, several of whom have been closely associated with the IMF's annual consultations with SA, come out firmly against increased tax rates for whites, noting that existing rates are already high and any further increase may have a powerful "disincentive effect"

"The SA tax burden and its marginal tax rates cannot be judged low by international standards the tax burden on the white community appears to be relatively high even by industrial country standards"

The proportion of GDP SA devotes to social spending has been rising steadily in recent years and is already — at 38,9% — high by international standards

● Comment Page 8

US not giving aid funds to the IMF

B Day 10/2/92

WASHINGTON — The chairman of a US Senate appropriations subcommittee said last week that Congress this year would not provide the $12bn it owed the IMF to help emerging democracies.

"It's an election year for me. I'm just not going to do it," said Senator Patrick Leahy. X156

Leahy, chairman of the appropriations panel that handles foreign aid, said doling out US largesse overseas was too unpopular with his colleagues to burden the Foreign Aid Appropriations Bill further by adding the IMF money.

He said he was not going to have a debate about it when there was no money for domestic programmes.

The IMF nearly two years ago approved a record $60bn increase in its resources to meet a growing demand for low-interest loans to debt-ridden Latin American countries and to emerging democracies in Eastern Europe.

All the industrialised nations that are the main source of money for the fund have committed to pay their share of the increase, except for the US and Italy.

Secretary of State James Baker said last week the IMF could also be the vehicle for aid to the new nations emerging from the wreckage of the former Soviet Union, and asked Congress to fund the IMF increase. — AP-DJ.

Central banks to hold on to gold

(156) STAR 10/2/92

By Neil Behrmann

LONDON — Discussions with European, and American bullion dealers and bankers suggest most central banks are unlikely to sell their gold at any price

The price would collapse if there were large volume sales

However, some dealers expect selling by central banks if the price rallies above $400 again

Speculation about central bank gold sales has been revived by a report that the European central bank, when it is formed by the year 2000, will control 40 percent of the world's official gold reserves

Andy Smith, London-based gold analyst of the Union Bank of Switzerland, estimates that EC central banks hold 11 600 tons of gold in their vaults

Another 3 000 tons is held by the European Monetary Co-operation Fund to back the present European Monetary System

Big question

The big question is what it will do with this gold

The 14 600 tons represents 39 percent of gold reserves held by central banks and other institutions such as the International Monetary Fund

Beyond gold loans to the market and the writing of call options, there is no indication that a European central bank will sell sizeable amounts of gold

Yet Mr Smith believes that European and other central bank sales will be the "swing factor" in the market when producer supplies fall short of demand

He recalls that the Belgian central bank sold 127 tons or 10 percent of its gold reserves between 1989 and 1990.

Central banks want to maximise returns on their portfolio, such as earning interest on foreign exchange reserves, says Mr Smith

The Belgium, Italian and UK central banks, for example, have hinted that there would be sales in the future

In the meantime, dealers say, they are providing gold loans and swops for foreign exchange and are writing call options against their bullion

Competition is so intense that the three months lending rate on gold is only 0,75 percent compared with a peak of 3 percent in 1990 and averages of 1,25 percent in previous years

IMF report lays down strict ground rules for aid to SA

156

BDay 11/2/92

SIMON BARBER in Washington

THE authors of the IMF's newly released occasional paper, Economic Policies for a New SA, stress at the outset that the views they express are their own, not those of the fund's shareholders or staff

Technically, this may be true The paper is, however, highly reflective of the fund's basic institutional biases As such, it should be read as a fairly definitive guide to the kinds of policies it will be asking of SA in return for access to its facilities

That means, in essence, that the IMF will be loath to help the present or any future SA government finance anything that might smack of instant gratification In the fund's view, the politicians' task is to take care of politics as best they can while laying the foundations for sustained, long-term economic growth The less willing or able they show themselves to act in this manner, the tighter the fund's conditions will become

The new paper contains little that SA's economic policymakers do not already know from private discussions with the fund or from the confidential reports its staff prepare for the executive directors after each year's Article IV consultations Not coincidentally, two members of the team that prepared the paper, Kenneth Bercuson and James Wein, have been closely involved with the consultations for some years

Their message is straightforward Acknowledge that redistribution can be achieved only through growth, not vice versa, nor, even more particularly, via budgetary expansion Restrain the urge for fiscal stimuli Increase government and private sector saving Keep using monetary policy to bring down inflation Be firm with spiralling wage demands. Lower protective trade barriers And do not think you will increase revenues by raising tax rates Seek rather to make the system more equitable, efficient — VAT is a good idea in this regard — and conducive to job-creating investment

What the authors of the paper, and by implication the IMF, would like to see over the next 10 years is laid out in what they call a "baseline scenario" It is not a prediction of what will happen, rather a model of what ought to happen if SA policymakers make the right choices

The scenario goes like this Some of its assumptions, as even the authors admit, are brave

Apartheid is fully dismantled and not replaced by other "structural impediments to the functioning of the market" (a polite way of saying the ANC abandons its nationalisation and other utopian fetishes) Monetary policy continues to be deployed to curb inflation. SA regains full access to international financial markets and technology, which in turn helps fuel an average annual productivity growth rate of 0,5% Capital inflows resume at a level representing 1,75% of GDP a year, rising to 2% by the end of the decade

The population grows by 2,25% annually Ensuring an appreciable rise in living standards therefore requires a 3,5% GDP growth rate and employment growth of at least 3% a year This can be achieved only through a marked improvement in investment performance "Specifically, capital accumulation would have to be strong enough to raise the investment/GDP ratio steadily, to 27% by the end of the period from its current level of 19%"

The removal of distortionary tax practices that have favoured capital intensive production and artificially boosted corporate earnings contributes to an annual 0,25% increase in labour's share of income Assuming 3,5% GDP growth and 3% employment growth, this permits average real wage expansion of about 0,75% a year

All of this is contingent on increased investment, part of which will be financed from abroad and through "the anticipated swing in the external balance from surplus to deficit" (sustained, perhaps, by IMF standby facilities), but which will also need to be backed by domestic savings It will be helpful, therefore, if the private sector savings ratio could move from under 21% at present to 21,5% by the year 2000 Likewise, the public sector will need to stop being a net dissaver and start contributing about 1,6% of GDP a year to national savings

That will call for fiscal restraint, especially since tax revenues — which represented some 28,5% of GDP in 1990 — cannot be significantly increased "without inducing severe disincentive effects" To keep the annual deficit at under 1% of GDP, government can only realistically hope to increase its spending from 1990's 28,1% of GDP to 30,3% on net annual revenues of 29,6%

Ergo, to avoid damaging growth prospects, the only real option is to reorder social priorities within the budget and cut fat where possible, most likely in defence and, less probably, administrative costs What such a reordering would look like can be seen from the authors' estimates of what annual per capita education, health and pension expenditures would come to in 1995 after being made equal for all races and assuming a 3,5% growth rate

Given a 30 1 pupil to teacher ratio and a standard teacher salary of R26 299, equalised per student expenditures would come to R1 345 in 1990 rands, up from R907 for blacks in 1990, and down from R4 087 for whites The levelled figure in health expenditures is R221, down from R322 for white and up from R147 for blacks Old age and disability pensions would equalise out at R2 270, as against 1990's R3 312 for whites and R1 980 for blacks

The numbers are sobering fiscally responsible equality is going to mean disappointingly small gains for blacks and quite dramatic losses for whites, many of whom will presumably forgo savings to make up the difference The upside is that if government can keep its expenditures at, or under 30% throughout the projection period, real per capita spending will be up by 10% at decade's end from what it was at the start

If, however, government, industry and unions fall off the wagon and go for quick gratification, the picture becomes considerably bleaker

The scenario posits government spending averaging 30,3% of GDP between now and 2000 Raise that figure by just one percentage point with no corresponding increase in saving from other sources, but let all other assumptions stand. The result is that 0,3% of GDP and employment growth is forgone each year, the reduction in unemployment slows and per capita expenditures, instead of growing by 10% over the decade, rise by only 1%

The paper explains "If resources are appropriated for current expenditures, there are fewer resources for capital accumulation and less growth to generate resources in the future"

The effects of higher wage growth are even more pronounced The baseline calls for an annual rate of increase of 0,75% An extra 0,5% — everything else remaining equal — pushes unemployment to 46,3% by 2000, nearly 10% higher than it would have been otherwise GDP growth is slowed by a full percentage point to 2,5%, 1,25-million fewer jobs are created, and real per capita government expenditures are 0,3% less by 2000 than what they were in 1990

The moral here is that income disparities, far from being evened out by artificial wage increases, will in fact be exacerbated, just as they were, the authors contend, by financial sanctions Instead, improved income distribution "will need to derive mainly from better training and better employment opportunities"

That, at any rate, is what the capitalist, neo-imperialists have to say

Growth is only way to achieve redistribution, says IMF paper

156

CT 11/2/92

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Technically, this may be true The paper is, however, highly reflective of the fund's basic institutional biases As such, it should be read as a fairly definitive guide to the kinds of policies it will be asking of South Africa in return for access to its facilities

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'Baseline scenario'

The message is straightforward Acknowledge that redistribution can only be achieved through growth, not vice versa, or, even more particularly, via budgetary expansion Restrain the urge for fiscal stimuli Increase government and private saving Keep using monetary policy to bring down inflation Be firm with spiralling wage demands Lower protective trade barriers And don't for a minute think you will increase revenues by raising tax rates Seek rather to make the system more equitable, efficient — VAT is a good idea in this regard — and conducive to job-creating investment

Washington Letter
by SIMON BARBER

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Tax practices

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All of this is contingent on increased investment, part of which will be financed from abroad and through "the anticipated swing in the external balance from surplus to deficit" (sustained, perhaps, by IMF stand-by facilities), but which will also need to be backed by domestic savings It will be helpful therefore, if the private sector savings ratio could move from under 21% at present to 21,5% by the year 2000 Likewise, the public sector will need to stop being a net dissaver and start contributing about 1,6% of GDP a year to national savings

That will call for fiscal restraint, especially since tax revenues — which represented some 28,5% of GDP in 1990 — cannot be significantly increased "without inducing severe disincentive effects" To keep the annual deficit at under 1% of GDP, government can only realistically hope to increase its spending from 1990's 28 1% of GDP to 30,3% on net annual revenues of 29,6%

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If, however, government, industry and unions fall off the wagon and go for quick gratification, the picture becomes considerably bleaker

Fewer resources

The scenario posits government spending averaging 30,3% of GDP between now and 2000 Raise that figure by just one percentage point with no corresponding increase in saving from other sources but let all other assumptions stand The result is that 0,3% of GDP and employment growth is foregone each year, the reduction in unemployment slows and per capita expenditures instead of growing by 10% over the decade rise by only 1%

The paper explains "If resources are appropriated for current expenditures there are fewer resources for capital accumulation and less growth to generate resources in the future "

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The moral here is that income disparities, far from being evened out by artificial wage increases, will in fact be exacerbated

Chikane warns against IMF

(156)

ADRIAN HADLAND

SA should not subject itself uncritically to IMF and World Bank policies, SA Council of Churches general secretary Frank Chikane this week told a conference on investment in SA

In the past these policies had been followed by "universal outcry and misery in those Third World countries where they had been applied", he said

"We cannot believe that the salvation of our country lies in an uncritical and undemocratic subjection of our country to IMF and World Bank policies "

Chikane was speaking at the opening of the Toward a Code of Investment conference in Broederstroom

BDay 12/2/92

The conference aims to pool ideas on an ethically sound investment practice for foreign and local investors

Chikane said he believed "unbridled capitalistic investment practice" could not be proposed as a solution to SA's economic crisis.

The present tendency of local business to invest in capital intensive, instead of labour intensive, ventures meant business had to share the blame for the current crisis, he said.

Stals urges repeal of US block on SA loans

(156)

STAR 13/2/92

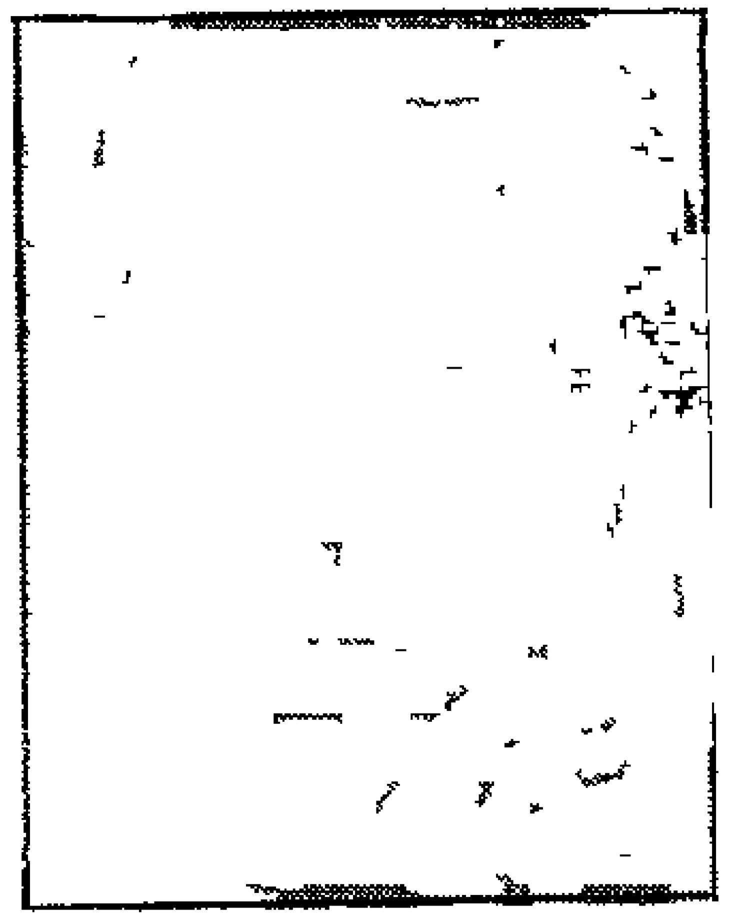
By Derek Tommey

Governor of the Reserve Bank Dr Chris Stals appealed yesterday to the United States to repeal the Gramm Amendment which, he said, was seriously limiting South Africa's economic growth

The Gramm Amendment stipulates that any application by South Africa for loan funds from the World Bank and IMF has to be submitted to the US Congress for approval

Dr Stals was addressing a seminar in Sandton arranged by British Invisibles, a trade body which is in South Africa to promote London's financial services

He said the Gramm Amendment placed an immediate restriction on the expansionary monetary and fiscal policies South Africa could follow at this stage, and also acted as a deterrent to potential foreign investors.



Dr Chris Stals Gramm Amendment placing restriction on expansionary policies

"It is therefore a matter of urgency for South Africa that these restrictions should now be repealed, as the American government has already done with the Comprehensive Anti-Apartheid Act

"The process of economic development must be stimulated if we want to benefit from a more rapid rate of economic expansion downstream

"The restrictions on South Africa from making normal use of IMF and World Bank facilities still places a major constraint on the ability to prepare for more rapid economic growth in a new political environment with a new constitutional dispensation

Dr Stals made it clear that although the balance of payments had improved, South Africa's economic growth would have to be restrained as long as the country could not attract foreign capital

Any increase in the rate of economic growth led to a rapid rise in imports, he said

Even if imports were to rise by only 10 percent, this would wipe out the trade surplus within a year

In the past it had been known for imports to jump by 35 percent in a year

It could be assumed that any substantial increase in domestic expenditure would be accompanied by a sharp rise in imports and the emergence of substantial balance of payments deficits

Dr Stals warned that South Africans must be modest in their expectations about foreign borrowings and foreign capital inflows

The world today was very different from what it was before sanctions were imposed

The debt crisis of the Third World had had a far-reaching impact on the willingness of financial institutions to make loans to developing countries

This meant that South Africa must become more attractive to foreign investors

"Only those countries that can offer security plus reasonable yields on investments will be able to draw capital from foreign markets

"In the case of South Africa, apart from the need for further progress in the political process of reform, we will have to present to foreign investors a stable and sound financial environment

"This requires a continuation of the a policy of guarded financial discipline," Dr Stals said

SOWETAN BUSINESS

First World solutions meaningless

156

Sowetan 13/2/92

THE International Monetary Fund must stop prescribing First World solutions for Third World problems.

It is all very well for them to warn that redistribution through high taxes and excessive Government spending will "wreck the country's economic growth".

Or for this organisation to alert us against excessive wage increases which, it says, will aggravate unemployment, hamper growth, reduce resources available to the Government for redistribution and prolong racial inequalities.

It suggests "better training and better employment opportunities for non-whites".

Textbook stuff

In addition, it says, given a teacher pupil ratio of 30.1, and a salary of R26 299 in last year's value of the rand, expenditure for each student should come to R1 345. This means it goes up from R907 for blacks, and comes down from R4 087 for whites. Health care is levelled at R221, going up from R147 for blacks and coming down from R322 for whites.

This is all textbook stuff. Firstly, the IMF has to accommodate differences in needs and priorities Diverse social, political, cultural and religious factors play a prominent role in influencing economic activity. Strategies for

It's my business

THAMI MAZWAI

economic growth and development will thus differ.

Also, the IMF uses countries in the West as role models, forgetting that the level of development is not the same, the environment differs, and none of these countries have a tenth of the inter-racial disparities, contradictions and hostilities this country has.

Expenditure

For instance, when it talks of equalising education and health by reducing expenditure for whites and upgrading that for blacks, it is simply dreaming. *Abelungu bethu* (our whites) won't brook any lowering of their living standards, and dramatically at that, to elevate black living standards.

We would not be seeing them block the resettlement of squatters in their lily white Bloubosrand in Randburg, regardless of the fact that these squatters do not have a roof over their heads. South Africa's racially skewed levels of development slot the white community into the developed world category, while the black community is in the least developed category.

Infant mortality rate

This is shown by the high infant mortality rate, above 80 for every 1 000 births, which is 10 times that of whites; large volumes of the black community are either rural or concentrated in large and landless squatter communities; a high dropout rate in schools because of social and political problems and an inadequate health service.

Low incomes and the non-ownership of land and property have reduced the bulk of the black community into impoverished or landless vagrants.

The IMF must realise that development - political, social and economic elevation - and not growth, is a priority. Logically, and in other countries, the reverse applies.

Housing

The next government will have to provide blacks with housing, electricity, health facilities, upgrade the education system and many other facilities that whites take for granted.

It is only when these expectations have been met, even to a very limited extent, that the argument, *redistribution through growth*, will make sense to blacks.

Carte Blanche

The IMF must therefore just shelve its advice on reduced Government spending for, like in Europe after the wars, the Government will have to spend and overspend.

Investment, which is being turned into the panacea for all our ills, has nothing to do with the provision of basic facilities for blacks.

Lastly, we are being warned against excessive wage demands. Is this carte blanche for employers who pay apartheid wages to continue doing so lest the economy be damaged?

FM 14/2/92

THE IMF & ECONOMIC POLICY (156)

An encouraging voice of reason

There are parts of the world where the IMF is regarded as a creature of the devil, sent to spoil profligate governments' time-honoured practice of raping their ever-suffering subjects. Fortunately, as most of those governments have turned their economies — in many cases, once flourishing — into basket cases which now need international assistance only IMF endorsement will bring, they have to listen to IMF prescriptions willy-nilly.

While the ANC still seems incapable of getting a coherent, consistent economic policy together, there are welcome signs that it too is at last coming to realise the difficulty of swimming upstream. Attendance at last week's Davos economic summit seems to have been an enlightening experience for ANC president Nelson Mandela and it is to be hoped that he will now be able to disillusion some of his still starry-eyed Marxist colleagues back home, perhaps fortified by the IMF's new report: *Economic Policies for a New SA.*

The IMF's message is blunt: redistributing wealth through increased taxes could wreck growth prospects and income inequality should rather be addressed through better training and employment opportunities for blacks.

Taxes on whites are already high, and to raise them further could have serious disincentive effects Rather than fiscal expansion to meet post-apartheid social needs, government must trim spending to stimulate investment and capital accumulation

These are, of course, very much the policies the *FM* has advocated — it seems for decades — in the pre-post-apartheid SA, which only underlines the point that our social problems will be the same whatever government, of whatever socio-economic philosophy, is in power.

It also, sadly, implicitly confirms the criticisms that have been made of the disastrous economic policies this government has followed for the past 20 years or more.

However much our present economic woes owe to drought and the uncontrollable vagaries of the world economy, we would be much better placed to handle the transition to democracy if we had a less bloated civil service, less regulation and fewer State-(mis)run businesses, and had not for so long deliberately stifled the emergence of a black middle and entrepreneurial class.

That, sadly, is water under the bridge. What we must do now is plan for the future; here the lessons of the IMF report are that policies inspired by jealousy or retribution will be counterproductive The basic debate is between those who believe redistribution can stimulate growth and those who believe that growth must come first It's heartening that the IMF comes down firmly in the latter camp. ■

IMF and World Bank to open doors to SA

SOUTH AFRICA has been assured of access to International Monetary Fund and World Bank finance — when an interim government is in place.

By MIKE ROBERTSON
Political Correspondent

As a result, Finance Minister Barend du Plessis is expected to produce a mildly expansionary Budget this year — combining tax cuts for individuals, substantial investment in selected capital projects such as housing and further incentives for exporters.

Reserve Bank governor Chris Stals said this week that any increase in economic growth would lead to a rapid rise in imports and a 10 percent rise in imports would wipe out the trade surplus within a year.

When that point was reached, South Africa would require access to IMF facilities to maintain an economic upswing

Government thinking is that with a slow, steady economic upswing starting in the second quarter of this year, an interim government would be in place by the time South Africa needed access to IMF facilities.

South Africa is denied access to IMF funds by the Gramm Amendment which stipulates that any application for loan funds must be submitted to US Congress for approval.

The amendment stipulates four criteria that South Africa must meet to qualify for loans. Three of them relating to capital and labour constraints have been met. The fourth is that the country must have a balance of payments deficit.

President FW de Klerk is understood to have received a personal assurance from President George Bush that should South Africa run up a deficit on its current account (that is more imports than exports), the US will not block an application for IMF funds

Faith

South Africa's ambassador to the US, Mr Harry Schwarz, sets great store in a recent comment by US Assistant Secretary of State Hank Cohen about South Africa's access to IMF facilities.

Mr Cohen said on TV1 that if he was South African, he would start reviving the economy and have faith in the US.

Mr Schwarz also argues that South Africa has met all four conditions of the Gramm Amendment.

Mr Schwarz favours greater government intervention to stimulate economic growth.

He said "Social problems in South Africa require urgent attention. There is no way we can allow the high levels of unemployment and squatter problems to continue.

"Without greater social stability, levels of crime and violence will continue to increase."

But Department of Finance director-general Gerhard Croeser rejected either massive government spending or the slashing of taxes as options to stimulate growth.

The government, he said, would persist with its structural adjustment programme which aimed at an export-led recovery

Social

However, he added, the outlook for world economic growth was not particularly buoyant.

He said other aspects of the structural adjustment programme included the lowering of tax rates for individuals and companies and "selective expenditure of a capital nature on a targeted basis"

Following the visit of World Bank president Lewis Preston to this country, Mr Croeser said South Africa could well qualify for assistance from this quarter.

World Bank funds, he said, would be focused on specific social projects

Before leaving South Africa, Mr Preston said the bank was preparing to step into South Africa once there was political consensus.

(156)

US could back IMF loan bid by Pretoria

(161)

ARG 22/2/92

HUGH ROBERTON
Weekend Argus Foreign Service

WASHINGTON — The United States yesterday announced that it would consider supporting an International Monetary Fund loan application from Pretoria

The State Department said it wished to be "as helpful as possible" in improving South Africa's economy

The announcement followed the lifting of the Evans amendment which prohibited Export-Import Bank assistance for exports to South Africa

This is the first formal undertaking by the US to consider a South African application to the IMF and it comes close to being an invitation to the government to seek a loan

Until now, US officials have merely said they believed South Africa had met the requirements of the Gramm Amendment, which prohibited US support for IMF loans to Pretoria until certain conditions had been met

In yesterday's announcement, State Department spokeswoman Miss Margaret Tutwiler added that the US would use the Export-Import Bank's facilities to encourage exports to non-government South African importers "who have endorsed and proceeded toward the implementation of fair labour standards"

"South Africa's economic conditions will have a direct and decisive impact on the success of the new democracy which emerges from the current negotiations

"In recent weeks, President Bush and Secretary of State James Baker have met ANC president Nelson Mandela and have spoken with President De Klerk Both men indicated their concern with South Africa's economic future

"Assisting US exports to South Africa will help create jobs in the US and will demonstrate our commitment to the agreement reached at the economic summit last July that the industrialised nations find ways to assist South Africa in those areas where the majority have long suffered deprivation — education, health, housing and social welfare

"South Africa's considerable needs cannot be met by domestic resources alone

"A healthy economic situation in South Africa is of critical importance as a new nonracial constitution is being negotiated

"In this regard, we want to be as helpful as possible We, therefore, would be prepared to consider a proposal for an IMF facility for South Africa subject to the terms of the Gramm amendment," said the statement

Earlier this week, the US Assistant Secretary of State for Africa, Mr Herman Cohen, said he believed South Africa had met the terms of the Gramm amendment

The only condition for an IMF loan which South Africa does not fulfil at present — a condition set by the IMF itself and which is applicable to all countries — is that the country should have a balance-of-payments deficit which cannot be redressed through borrowing from the private sector

However, waivers of this condition have been granted in the past

SA not yet ready for IMF loans, says Schwarz

156

STAR 25/2/92

WASHINGTON — Harry Schwarz, South Africa's ambassador to the US, said at the weekend that although his country had won US support for new monetary assistance from the International Monetary Fund, it was not yet ready to apply for help at this stage

"We are in a position that when it is appropriate we can apply," he said, welcoming a favourable US State Department pronouncement.

The statement had been long in preparation but was made more pointed after the crushing by-election defeat of the National Party at the hands of the right-wing Conservative Party last Wednesday.

It acknowledged that economic conditions in South Africa, where unemployment has reached 40 percent, will have a direct and decisive impact on the success of the new democracy which emerges from the current negotiations.

The State Department, while vague on its IMF policy, said the US was prepared to consider a proposal for an IMF facility A provision of law, the Gramm amendment, prohibits US support for an IMF facility unless four conditions are met.

A Department spokesman said three had been, but it was not yet clear the fourth had. That requires South Africa to seek balance of payments support from the private markets before going to the IMF

Mr Michael Christie, Washington director of the South Africa Foundation, a private-sector South African group, said he had been privately assured the US would now back an IMF facility. But the timing was subject to debate because inflation was now 15 percent.

However, he said, the country, which now desperately needed to expand its economy through imports, had the option of going to the IMF.

A formal finding by President Bush earlier that South Africa had made significant progress toward the elimination of apartheid, paved the way for new Eximbank lending to the South African government.

"We are also encouraging US exports to non-governmental South African importers who have endorsed and proceeded toward the implementation of fair labour standards", it said. Financial Times.

WORLD

Russia edges closer to gaining IMF aid

Bl Day 28/2/92 (156)

WASHINGTON — Russia and the IMF are close to agreeing on a preliminary economic programme that would move Russia a significant step closer to receiving billions of dollars in IMF assistance, the Wall Street Journal reported yesterday.

The agreement is known in IMF parlance as a "shadow programme" to distinguish it from a final IMF agreement, which could not be enacted until Russia becomes a full IMF member. But Russia is expected to be granted full membership in April, and the shadow programme could be converted into an official agreement quickly after Russia's membership is complete, IMF and US officials said.

They said negotiations on the programme have progressed so far that former British treasury official John Odling-Smee, heading the IMF delegation to the former Soviet Union, has returned to Washington to consult with officials at IMF headquarters. One official said the shadow agreement could be finished in a matter of days, but others estimated that two more weeks may be needed

Under an IMF agreement, a nation agrees with fund experts on a programme of economic reform in return for eligibility for financing from the IMF and its sister institution, the World Bank.

In the shadow agreement being completed Russia commits itself to various steps to liberalise its centrally controlled economy, including raising subsidised energy prices closer to world-market rates Russia also officially promises to show fiscal restraint.

But officials said the agreement does not resolve the important question of how to stabilise the rouble. Russian and IMF officials have not decided on the best strategy for supporting the rouble, officials said, and are not sure that establishing a widely discussed, multibillion-dollar stabilisation fund is the best course

A shadow agreement would be significant for Russia, because its officials could use the existence of even a preliminary agreement with the IMF as a way of inspiring confidence among potential private investors. In addition, the completion of a shadow agreement now, even though it does not include all the details of a final agreement, would shorten the time Russia would have to wait before getting access to IMF financing One US treasury official estimated that IMF funds could begin flowing as soon as early summer.

Though the US has cast a cloud over long-term IMF assistance plans by refusing so far to approve a promised $12bn increase in contributions to the IMF, officials said that gap would not interfere with the early stages of an aid programme for Russia.

US officials familiar with the IMF negotiations said they had been pleasantly surprised by both the flexibility and sophistication of economic advisers to Russian President Boris Yeltsin

US officials hope to reach a consensus among IMF board members on granting Russia membership in the IMF in early April, with formal membership to follow later in the spring. Several other former Soviet republics are also likely to be admitted to the IMF — AP-DJ.

BUSINESS BAROMETER

One step nearer the world

156

SO NEAR, yet so far. That's what the world economic community looked like from South Africa this week

So near, in the "good" news on sanctions — for those who believe sanctions should fade away The US administration indicated South Africa probably qualified, in terms of the US sanction the Gramm Amendment, for access to International Monetary Fund finance W/Mail 28/2 - 5/3/92

It isn't clear whether South Africa's current account of the balance of payments (BoP), our account with the rest of the world, would have to be in the red or not

So far so good Unless access to emergency IMF funding is cleared up we won't be looked upon as a good risk by the rest of the world Also, no one in authority is going to take their foot off the economy's brake until we know we can turn to the IMF if the economy starts to run away with us Booms in the past meant higher imports and red ink on the BoP

The IMF has a history of attaching to its loans conditions which some interpret as undue interference in local economies For this reason many on the left would want South Africa to use a long spoon in supping with that august body

The bad news: suddenly the Conservative Party reminded us of how far from the world we had drifted The shadow cast over the stock exchange last week by the coming referendum had passed by mid-week But confident as many are of CP defeat, the referendum will delay potential investment Confederation of British Industry director general Sir John Banham warned that such political uncertainty, together with violence, was a big deterrent to investment

Not surprisingly, big business announced a media ad campaign to push for a yes vote

UK backs Russia's IMF membership application

BDay 3/13/92

LONDON — The UK would represent Russia in negotiations with the IMF for membership, the UK treasury said yesterday It will be Russia's representative on a formal membership committee created by IMF MD Michel Camdessus to hammer out terms of the former Soviet republic's membership. Associate membership status was created for the Soviet Union last year.

This, however, only allowed the IMF to provide the now splintered nation with technical assistance

Full membership for Russia will open the way for substantial assistance in its market and monetary reforms. Russian Finance Minister Yegor Gaidar asked the UK to act on its behalf, Chancellor of the Exchequer Norman Lamont said. (156)

The treasury said a committee of IMF directors would meet soon to discuss the application and Russia's quota.

Russia formally applied for IMF membership on January 3. It is standard procedure for a nation seeking membership to appoint an existing member to act on its behalf during quota negotiations.

Official sources have said the IMF favours 4,1% to 4,3% of its quota for what is now known as the Commonwealth of Independent States (CIS) Russia and Ukraine are expected to have the largest share.

The IMF's pending quota increase will bring its total resources to about $180bn, of which the CIS share could be about $7,56bn.

Basic economic rules the key to SA's development

156

Sowetan 5/3/92

On February 13, *Sowetan* columnist Thami Mazwai criticised the IMF's proposals for a new South Africa. In this article MPHO SEROBE, who is on a masters programme in economics at the University of the Witwatersrand, tells Mazwai: "You are wrong"

OPINION

THAMI Mazwai claims guidelines suggested by the International Monetary Fund for the economic restructing of South Africa are textbook material because they:

- Neglect differences in needs and priorities,
- Do not consider diverse social, political, cultural and religious factors between countries, and
- Use countries in the West as role models

The IMF doesn't say individual countries shouldn't follow their "needs" and "priorities", what they are saying is that some "needs" and "priorities" can wreck while others don't

The Soviet Union and other Eastern Bloc countries followed different policies according to what they thought were their "needs" and "priorities"

We all know what happened to those economies There are economic fundamentals which one should follow if one hopes to achieve development, irrespective of "diverse social, political, cultural and religious factors"

The claim that the IMF has used countries in the West as role models is unfounded To show the advantages of firm economic management, such as avoiding excessive wage increases and excessive government spending, Botswana and Mauritius are given as examples in an IMF survey released on March 18 1991.

Perserving

In a speech in Gaborone on February 25 1991, the managing director of the IMF, Mr Michel Camdessus, referred to 30 African countries who are persevering with growth-oriented adjustment programmes and are already seeing significant results

These countries include Tanzania and Uganda

Growth

Studies conducted in Third World countries show that high taxes, excessive government spending and wage increases are to be avoided if growth and development is the objective.

For Mazwai to claim the IMF has used countries in the West as role models shows only his ignorance (I mean no offence)

Mazwai concludes "The Government will have to spend and overspend".

This is "macro-economic populism" which will result in inflation balance of payment crisis and a debt burden, all at the expense of future generations

Sustainable

It still has to be proved that redistribution can achieve a sustainable economy in the long term, (Peter Mall 1991)

Also, it doesn't necessarily follow that reducing expenditure on education per white child would lead to a lowering of "standards" because some of the previous expenditure on whites was used on physical capital, for instance buildings which don't disappear when you reduce Government expenditure per white child

Overspending

In fact it is a known fact that some of those buildings are still to be used

Overspending, which Mazwai advocates, means living beyond your means or what is called deficit financing

Mazwai should know the dangers of deficit financing, and what is his source of funds to provide blacks with housing, electricity, health facilities and upgrading education?

Does he have estimates of how much would be involved? It is a known fact (among economists) that the saving that would come out of getting rid of apartheid won't be enough

The message from the IMF is loud and clear· not all expectations shall be met - given the resources at our disposal The message I want to send to Mazwai is simple most expectations won't be met unless we achieve growth

If the economy is damaged because we want to get rid of "apartheid wages" it shall only worsen the skewed distribution of incomes between population groups

Distribution

We shouldn't only be concerned with the distribution of incomes within the black population taken separately

Better training and better employment opportunities for nonwhites, as the IMF suggests, would ensure that the Government focuses first on "investment spending" in order to create jobs and not "consumption spending" as suggested by Mazwai

If people are employed they shall pay for their housing, electricity and health facilities.

Then the provision of these facilities would be the responsibility of both the private and public sectors

SA needs a fair tax system that caters for social needs

BDay 6/3/92.

156

NEIL COLEMAN

A DISTURBING tendency has emerged in the mainstream media to overreact on sensitive issues, particularly economic ones. This has the effect of closing off debates, rather than encouraging a creative interaction of opposing ideas.

The Business Day editorial of February 26 attacks me for "intellectual dishonesty" and "economic naivete" for daring to suggest our taxation system needs restructuring In case this were not enough, the editorial casts aspersions on my personal background.

In a report the previous day I indicated Cosatu had not discussed the type of wealth tax proposed by the Labour Research Service (a 5% tax on the wealthiest 20 families) but that we were concerned the tax burden had been shifted over time from companies to individuals, and from the rich to the poor

This is borne out by a comparison of taxation levels in recent years In 1975, company income tax (including mines) comprised 51% of revenue By 1990 it had plummeted to 24% On the other side, sales tax combined with individual income tax had rocketed to 63% of revenue in 1990, from 36% in 1980 Whichever way one interprets these figures, they suggest that the super-rich (whether at the corporate or individual level), have been contributing a declining share to the fiscus, while ordinary South Africans, both poor and middle income, are being taxed to the hilt

This is not to suggest that a wealth tax is a panacea for all SA's socio-economic inequalities Far from it A restructuring of our taxation system can achieve the desired results only if it is accompanied by a reorientation of our economy on to a higher growth path

Attempts to create an equitable distribution of income and social welfare, purely through the use of fiscal measures, in the face of a shrinking economy and growing population, will ultimately have the result which many businessmen have been warning against — stifling investment and economic development Taxation used as a blunt redistributive instrument, without being accompanied by the necessary economic growth, would probably vindicate the predictions of the harbingers of doom

Before Business Day irreparably injures my reputation by offering me a regular column, these remarks need to be put in context Even if our economy moves on to the "high road", something for which Cosatu is arguing, adjustment of the taxation system will be needed to address massive inequalities with which a new government will be confronted

Firstly, according to the recent IMF report, SA appears to have virtually the lowest level of property and wealth taxes in the world Together with social security taxes and royalties, these comprise only 1,4% of GDP in SA, compared with 7,88% in selected middle-income countries, and 13,81% in industrial countries (average for 1980-1988) Therefore, despite the hysteria which has accompanied debate about a wealth tax in SA, such a tax is widely used in other parts of the world as a redistributive mechanism

However, the form of wealth tax which is used should be consistent with the broader process of economic restructuring For example, a capital gains tax would, apart from being a source of revenue, also encourage productive investment and job creation instead of speculation in shares and property Similarly, a tax on dividends would encourage companies to reinvest profits.

Secondly, taxation of workers, black and white, has rocketed in recent years Labour Research Services calculates, for example, that an African worker (married with two children) earning R1 800 a month in 1991 would pay R147,50 in PAYE, as compared to R61,54 PAYE in 1988 out of basic wage of R1 183 (This calculation is based on a 15% annual wage increase) In this example, the worker would pay 58% more tax, as a proportion of income, than four years earlier Bracket creep is hitting growing numbers of low-paid workers

At the same time, indirect taxes are rapidly rising as a proportion of the fiscus — from 14% of revenue in 1980 to 29% in 1990 The IMF study shows this is at least a third more than that of selected middle-income countries, and double that of African and Asian countries, taken as a percentage of GDP. The situation is now probably even more unfavourable, considering the IMF figures cover only the 1980-1988 period

Indirect taxation ignores income and ability to pay It taxes all — super-rich or super-poor — equally. This form of regressive taxation was taken to absurd lengths with the introduction of the undifferentiated 10% VAT rate last year, a rate which we are told will soon be going up This is in spite of the fact that every other country in the world which uses VAT, with the exception of New Zealand (with its advanced social security network), taxes basic necessities at a low rate and luxury commodities at a high rate The 16-million South Africans living below the poverty line (according to Development Bank of Southern Africa estimates) with virtually no security net, will not be encouraged by Business Day's claim that VAT is fair because it taxes all equally!

Further, VAT has been implemented in a way which doubly benefits the rich and the corporate sector, at the expense of the poor and unemployed The immediate and total exemption from VAT on capital goods (again unique in the world) created an estimated R7,5bn windfall for big business

We were told this would encourage large-scale investment and job creation Leaving aside the fact that the predicted surge in economic activity has not materialised, it is not difficult to see that structuring of VAT in SA is bound to create unemployment rather than jobs. VAT raises labour costs, and cheapens capital by exempting capital goods This will encourage the replacement of labour by capital

The implementation of VAT is yet another example of how our taxation system is structured with total disregard for social realities and development priorities

Thirdly, we should be more cautious before boasting about the redistribution of wealth which is said to have happened in recent years If any redistribution has indeed taken place, it has been marginal and a drop in the ocean when measured against SA's staggering socio-economic inequalities

Even the IMF report suggests that despite certain shifts (many of which, incidentally, were the result of bitter struggles by workers and their unions), SA still has possibly the greatest level of socio-economic inequality in the world This assessment is based on the Gini Co-efficient, a widely used standardised measure of income distribution

The report estimates that white per capita income was nearly 1 000% that of black per capita incme in 1989 Despite shifts in social spending, per capita social expenditure on whites continues to be several hundred percent that of blacks

The IMF report also reveals that when economic indicators are compared for SA and relatively poorer neighbours such as Zimbabwe and Botswana, citizens of these countries are as well off, or better off, than black South Africans Even poverty-stricken Namibia compares favourably in the IMF analysis

These harsh realities need to be seriously addressed if we are to meet the challenges facing SA in this period of transition Until we start addressing the critical problems confronting our country, on the basis of real social needs rather than perceived ideological paradigms, we will continue talking past each other.

☐ **Coleman is Cosatu's information officer.**

B Day 9/3/92

Congress uphill for IMF quota

WASHINGTON — With election year politics in full swing, the chances that the US Congress will approve a funding increase for the IMF this year are slim to non-existent, congressional sources say.

US Treasury Secretary Nicholas Brady and other Treasury officials have urged congressmen to support the quota increase, but legislators and their staff members say the Bush administration has missed its chance. B Day 9/3/92

"This is the worst environment I've seen," said one senior Senate aide, referring to attitudes toward foreign aid on Capitol Hill.

In May 1990, IMF member countries agreed to a $60bn quota increase, of which the US share would be $12bn. (156)

Without US support, the increase cannot go into effect and the IMF's lending ability would be seriously hampered, particularly as the post-Soviet successor states become eligible for IMF assistance.

But the proposal is unlikely to be approved soon, partly because of the election year and the issue of whether the US should provide $10bn in housing loan guarantees to Israel. Congressional sources say legislators fear that if they open the existing foreign aid legislation to any changes, pro-Israel supporters will intensify their efforts to get the guarantees. — AP-DJ.

WORLD

Russia close to IMF membership

B/Day 10/3/92

TOKYO — IMF MD Michel Camdessus said yesterday Russia and the other republics of the former Soviet Union might be able to assume full IMF membership as early as May.

He also hinted that aid to the republics could be delayed by the failure of the US Congress to ratify the latest increase in the fund's quota, warning the IMF could be "very short of money" by year's end.

Treasury Secretary Nicholas Brady got a chilly reception on Capitol Hil when he asked for approval of the $12bı share of a $60bn increase in IMF fundinj.

House appropriations subcommittee on foreign operations chairman Davd Obey said Brady would need Republican support for the increase before the Democratic majority would approve it.

Camdessus told a news conference that IMF membership for the republics was a matter of "immense urgency". But he also noted that it was "particularly difficult" as it involved evaluating the size of each economy to determine their contribution to the IMF's capital resources.

Konstantin Kagalovsky, head of the Russian delegation negotiating with IMF officials, said the approach being used by the IMF staff to calculate its access to fund loans "is completely erroneous".

Kagalovsky said the IMF approach was to calculate a figure for the former Soviet Union and divide it into 15 pieces.

Every member nation was allocated a portion of the fund's resources on which it could draw for loans. The Russians are lobbying for a quota of at least 4%.

Japan, for example, has a quota of 4,2%. Saudi Arabia's quota is 3,4% and China's 2,3%. The US quota is 17,9%.

Russia also expects to receive a seat on the IMF board. 156

One key indicator in determining a quota is by trade volume. The Russians complain the IMF is not counting its trade with other former republics.

Officials said they were told Japan wanted Russia's quota to be no higher than that for China. — Sapa-AFP, AP-DJ.

Weapons seized as thousands march through Jo'burg

STAR 19/3/92

152 49 327

Staff Reporters

Over 14 000 ANC, SA Communist Party and Cosatu supporters massed in the streets of Johannesburg yesterday to protest against the "racist" Budget, violence, traditional weapons and single-sex hostels.

Police said they seized a number of dangerous weapons at Johannesburg station from people who had travelled from Daveyton for the march. The weapons, including sharpened rods, blades and "battle-axes", were handed over without fuss, said police

A knobkerrie, a panga and a sharpened stick were held aloft by three toyi-toying marchers at the tail-end of the march.

ANC leader Patrick "Terror" Lekota handed over a petition to Major Bruce Smith, second-in-command at John Vorster Square. It demanded proper policing, an end to covert security forces and single-sex hostels, a total ban on the display and carrying of weapons, and the formation of an interim government by June

The petition said police acted in a manner that suggested unwillingness to be accountable to the community they were supposed to serve, and that known warlords were allowed to roam the streets and murder with impunity

Failure to respond positively would mean mass action on a scale not seen before, the three organisations threatened.

In reply, police said the success in arresting those involved in massacres spoke for itself

"The ANC should first look at themselves before trying to blame anybody else for their own inability to find peaceful solutions to the problem of violence and the problems of communications between the ANC and Inkatha"

Protesters also presented a petition to Receiver of Revenue J W Wessels in Rissik Street It included demands for

● The implementation of a sovereign interim government by June and elections for a constituent assembly by the end of the year

● An end to the unilateral restructuring of the economy by the Government.

● No increase in VAT

● The reincorporation of all homelands

ANC vice-president Walter Sisulu addressed the protesters before the march, saying the Budget would once again benefit the rich, and would fund white elephants like Mossgas instead of providing more affordable housing

He criticised Tuesday's referendum for being racist and said the struggle for democracy should not depend on the whim of a white minority

He marched with the well-marshalled crowd to about 500 m from John Vorster Square, before he and his wife Albertina climbed into a waiting car.

● At a similar march in Cape Town yesterday, Cosatu executive Jay Naidoo, ANC secretary-general Cyril Ramaphosa, SACP chief Chris Hani and Western Cape ANC head Dr Allan Boesak joined 5 000 protesters on the Grand Parade to protest against the "apartheid" Budget

Shepherd Madlalana of the SA Democratic Teachers' Union told the crowd the world had to know that the Budget was illegitimate.

● About 3 000 Vaal Triangle township residents took part in a peaceful protest march to the local police station and Receiver of Revenue's offices in Vereeniging yesterday

The march was led by senior ANC officials Alfred Nzo and Steve Tshwete

Winnie Mandela, wife of ANC president Nelson Mandela, apparently followed the march route in a car.

IMF ponders Soviet states

BiDay 23/3/92

WASHINGTON — The former Soviet republics are on the verge of joining the IMF, but questions remain as to the scale and timetable of the financial aid they need to shed communism and build market-based economies.

All 15 countries that emerged from the ruins of the Soviet Union, or at least a large number of them, led by Russia, will gain admission to the international lending giant by late spring or early summer, say IMF sources.

Although all sides want the process to be swift, several months are still needed to work out delicate details and formalities, the sources say. (156)

"If everything goes well, the executive board should have completed its work by mid-April", and will present the IMF board of governors with a draft resolution spelling out admission terms.

The governors will then have a month to approve the agreement, and starting in mid-May each of the republics will have to ratify it.

Currently the executive board is grappling with technical issues such as how much each republic will have to contribute to the IMF capital pool.

The issue is touchy because the quotas are determined by a country's economic strength, and reliable statistics are hard to come by in the former Soviet Union.

Another problem is that Russia wants a larger quota — 4% of the IMF capital fund — than that which Western nations are recommending.

They suggest a 2% to 2,5% quota for Russia and 4,5% for the 15 nations when considered as a whole. — Sapa-AFP

Banks aim to extend states' debt deadline

FRANKFURT — Western bankers owed money by the Commonwealth of Independent States began talks yesterday to extend the repayment deadline on the former Soviet Union's debts.

The bank advisory committee is likely to delay further repayments of principal amounts for 90 days.

The CIS has inherited a debt between $65bn and $70bn from the ex-Soviet Union. About a third is owed to Western banks.

The bankers said they expected CIS representatives to provide details of attempts to stabilise the financial system and introduce market economics.

The panel will also be looking for data from Vneshekonombank, the former Soviet foreign trade bank, on the exact amount of money owed and its forecasts of the cash available. Bday 27/3/92

□ Russia and the EC are drafting a "large-scale" trade agreement for signing by end-May, it was reported this week.

Russian President Boris Yeltsin and EC Commission deputy chairman Frans Andriessen met in the Kremlin on Wednesday.

Russian ambassador to the EC, Ivan Silayev, said the agreement was "new in principle, market-oriented in character," Itar-Tass news agency said.

It said Andriessen had confirmed that a $600m credit would be issued to the Russian Federation with "no strings attached". — Sapa-Reuter-AFP.

IMF sees brakes coming off the global economy

Bday 27/3/92 156

WASHINGTON — The IMF sees the global economy emerging from a period of slow growth and gathering steam through next year, IMF MD Michel Camdessus said yesterday.

In remarks to a financial group in Monte Carlo that were made available by his office in Washington, he said the world economy as a whole would grow by 1,5% this year and about 3,5% in 1993, Sapa-Reuter reports

He said that industrial country economies on average would grow by 2% this year and by 3% to 3,5% in 1993. They rose by 1% last year

Camdessus said the figures reflected some recovery in the US and Britain and a slowdown in Germany and Japan.

"Now countries that experienced recessions seem to be recovering gradually, while some of those that maintained relatively high — and possibly excessive rates of growth — are slowing down," he said

Excluding developing countries in the Middle East hurt by the Gulf War and those in struggling eastern Europe and the former Soviet Union, growth rose by 4,2% in 1991 and is expected to match this pace this year, accelerating further in 1993, he said.

Camdessus's global report card emphasised that countries must be adaptable and must avoid living on successes of the past which could lead to stagnation

He also said that economies must adopt policies that assure the kind of growth that provides the basis for permanent improvement in living standards

"This does not mean the kind of short-term growth that can result from excessive demand stimulation that leads to overheating of an economy and a stop-go cycle"

There were many risks in the period ahead, he said, arguing that if the threat of a global savings shortage was not dealt with, the recovery from the present slowdown could be derailed

AP-DJ reports that Camdessus said he was more confident than before that the US Congress would ratify plans for a vital 50% increase in the IMF's resources

He was "a bit more optimistic" than he was several weeks ago that a political consensus in Congress would allow the plan to boost the IMF's quotas, or membership fees, to go through in the coming months

The US was well aware that the $60bn quota increase would free up sums of money that far exceeded the American contribution of about $12bn, he said

Democratic congressmen have been unwilling to vote for the IMF issue, fearing that a proposal that implies foreign aid would create a political backlash from the electorate.

SA must heed IMF — banking group

By ZB MOLEFE (156)

CPRESS 29/3/92

THE recent International Monetary Fund (IMF) report identifies and indeed supports some scope for State-directed redistribution of wealth in a future SA, points out one of the country's biggest banking groups

The review also points out that for South African groups to invoke the IMF report as a vindication for their own viewpoints would "risk rendering the report an ideological football, as has happened in many other developing countries".

Rather, the IMF report seeks "to add to the economic debate, especially in that area where it is highly experienced".

The IMF report identifies the single greatest challenge facing policy makers (in a future SA) to be the improvement of both living standards and distribution of income and broadly-defined wealth.

The review points out that this can only be achieved through sustained growth over the next decade, which would rely on a baseline scenario resting on four pillars.

These are, that apartheid be fully dismantled; that structural policies are pursued to render the economy more competitive; that a tight monetary policy remains an integral part of the battle against inflation, and that SA secures renewed access to international finance and technology.

It goes on: "Like many analyses of SA, the (IMF) report places poverty in the context of the dual nature of the economy, characterised by distinct rural/urban disparity in socio-economic well-being."

While this is a feature shared by all developing economies worldwide "apartheid laws, notably influx control and the homelands, have exacerbated the general level of poverty".

The review's interpretation of the IMF report also says. "Moreover, the lack of State assistance has worsened general poverty, since per capita expenditure on blacks in all respects has been less than that spent on whites, although some redress has begun to occur since the late 1980s."

Interestingly, says the review, SA outperforms its neighbours in terms of adult literacy, and is similar in per capita calorie intake but "Botswana and Zimbabwe both offer better national health insurance, which has increased life expectancy of their populations and the survival rate of infants in their first two years".

Economists disagree with IMF optimisim

STAR 21/4/92

(156)

WASHINGTON — A senior International Monetary Fund (IMF) official has brushed aside worries about a world recession and forecast faster global growth next year

"Even if we see downward risk here and there, our expectation is for a global recovery," he said at a briefing ahead of the IMF's semi-annual meeting here later this month.

He forecast global growth next year of 3,25 percent after a meagre 1,75 percent rise in 1992.

Some private economists are not so sanguine They argue that Japan's stock market collapse, Germany's slumping growth and America's doubtful recovery have increased the odds of a global downturn

"Given the financial fragilities around the world, we could easily be tipped into a world recession," said Fred Bergsten, a former US official who is now director of the Institute for International Economics think-tank here

That is a worry shared by the Bush administration, which is afraid that weak growth overseas will sabotage the hesitant US recovery and hurt the president's chances for re-election in November

"The nations of the world must ensure that their policies lay the groundwork for a growing world economy," US Treasury Secretary Nicholas Brady said earlier this month.

Washington is expected to press its rich allies for action to do just that at a meeting of the powerful Group of Seven here next weekend The G7 comprises the United States, Japan, Germany, France, Britain, Canada and Italy

Much of the recent concern about the world economy has focused on Japan, where the huge drop in the stock market has devastated banks' investment portfolios and undermined their ability to lend money to finance continued expansion.

Growth in Japan has slowed to a standstill but the IMF official voiced confidence that recent Japanese interest rate cuts and accelerated government spending would spur a recovery in corporate investment there at the end of this year

"We know there are a few worrying developments," he said "But we believe that the prospects are for recovery"

But Japan is not the only source of concern about the world economy High interest rates in Germany have increased the odds of a recession there and hurt the economies of the rest of Europe

The IMF official said he did not expect a European recession next year but acknowledged that growth there would remain subdued

He blamed that on the reluctance of European governments to open up their economies further and cited, among other things, their failure to cut big state subsidies, particularly for agriculture — Sapa-Reuter

Soviet aid linked to IMF restructuring

156

B/Day 24/4/92

WASHINGTON — The US and its allies will welcome former Soviet republics into the capitalist fold next week, but analysts say the West must avert a global recession if their entry is to be a success

The IMF and World Bank are due to allow 14 of the 15 republics to sign on as members, sealing their conversion from communism to free market capitalism

But analysts said a growing world economy is necessary if Russia and the other former Soviet republics are to enjoy the fruits of capitalism, not just the pain of economic reform

Aid to the former Soviet Union and the health of the world economy are expected to be the two top topics at the semi-annual meeting of the IMF and World Bank running from tomorrow to next Tuesday

Once reviled by Moscow as capitalist tools, the IMF and World Bank are playing key roles in helping the newly independent states rebuild their economies

The IMF earlier this month set membership terms for 14 republics, leaving out Azerbaijan which is expected to join once procedural matters are resolved

Membership of the IMF and World Bank will open the door to billions of dollars of aid

IMF MD Michel Camdessus calculates that the former Soviet Union will need around $44bn this year in foreign help for carrying out economic reforms — $24bn for Russia and the rest for the remaining republics

The powerful Group of Seven (G-7) leading industrial nations — Britain, Canada, France, Germany, Italy, Japan and the US — are already committed to putting together an aid package to fill Russia's needs

And monetary sources said that more than half of the money that the other republics require has also been found

But much of that financing will only become available if Russia and the other new states are able to reach agreement with the IMF on tough action to reform their economies

Although the IMF has praised Russia's decision in January to free prices, it has also signalled that the country has some way to go before it has a reform plan deserving of IMF financial support

Some are worried though that the US and the rest of the G-7 will be so eager to help Russian President Boris Yeltsin that they will put pressure on the IMF to endorse a less than adequate reform package

There are signs that might happen Deputy Treasury Secretary Robson said the IMF and World Bank had to take account of what he called the "reality of reform" in fashioning their programmes

"The process of reform in these countries is going to be bumpy," he said

But all the arguments about the appropriate pace of economic reform in the former Soviet Union could merely prove academic if the world economy is not growing

Faster world growth would not only boost demand for exports from the former republics, but it would also help generate the financing they will need to rebuild their economies

But some analysts believe collapsing stock prices in Japan, slumping growth in Europe and worries about the US recovery have increased chances of a global recession

Robson said the US is also worried about the situation and intends to press its G-7 allies to do more to spur global growth — Sapa-Reuter

B/Day 29/4/92

Lamont in plea to IMF

UK Chancellor of the Exchequer Norman Lamont yesterday urged the IMF and World Bank to "consider positively" any future aid requests by SA (156)

Lamont cited SA's "steady progress towards nonracial democracy". He added "SA urgently needs economic growth and jobs and growth in SA will in turn benefit its hard-pressed neighbours."

A long, hard road ahead

156 FM 1/5/92.

There is little to shout about in the IMF 1992 forecasts for the world economy Like other macro-economic soothsayers, such as the OECD, IMF forecasters have had a chastening 12 months While there are marginal differences between the OECD and IMF (for example 0,2% of US GNP, about US$11bn), both organisations have had to do the same thing take the pruning fork to previous projections. The recession's bite was worse and recovery will be slower and later than expected

The IMF's *World Economic Outlook* posits an even drearier picture than that presented by the OECD only four months earlier It also highlights the reason behind the increase in US pressure on the other leading economies of the Group of Seven (G7) to do more to foster growth when they met in Washington at the weekend

US Treasury Secretary Nicholas Brady earlier told British Chancellor Norman Lamont that "an inordinate preoccupation" with inflation would hold growth below satisfactory levels Japan has already been asked to bring forward more State investment in addition to the recent stimulatory package announced when its discount rate was cut to 3,75% This attitude, however, is at odds with the IMF's main concern over the high level of fiscal deficits in Germany, the US, Britain and Italy in particular, which threaten to underpin long-term interest rates

The IMF looks at the world This gives it a different perspective to the OECD which covers 24 industrialised nations accounting for more than 74% of global GDP The most interesting differences concern the developing countries and transitional economies of the former communist bloc (see table)

It shows how the near collapse of the old centralised economies and negative growth performance of two G7 countries, the US and UK, reduced world GDP by 0,3% No material improvement is on the cards in what was the USSR but the other ex-members of the Warsaw Pact are showing a swift turnround and nearly 4% growth is projected for next year

The lesson for the 15 members of the Commonwealth of Independent States is that they should emulate the "bold and comprehensive reforms" implemented by the Poles, Czechs, Hungarians and other erstwhile Soviet satellites, says the IMF

The developing world, however, did much better than was foreseen last year by avoiding the worst effects of the industrialised nations' slowdown and weak commodity prices with real GDP up by 3,3% While the 1992 growth figure of 6,7% is distorted — the Middle East's rebound to 15% reflects the return of Kuwait as an oil producer, plus, possibly, its old enemy Iraq — the IMF is optimistic

Africa's growth rate should almost double in spite of drought in the subcontinent Asia is shown as maintaining a fast clip or 5,5% and more Central and South America are expected to produce a surge of 4,2% in 1993

The IMF notes that, while the developing economies remain heavily dependent on activity in the OECD's 24, it has become clear in the past few years that much of their fate lies in their own hands It cites the obvious examples of the tiger economies of the Pacific Rim but also commends those which are following suit with free-market and prudent monetary policies Ghana, Mauritius, Morocco and Tunisia in Africa plus Mexico and Chile in Latin America

Much, of course, is due to the horrors of the debt crisis of the 1980s, the consequent net outflow of capital and destruction wreaked by hyperinflation — now, and hopefully only temporarily, the preserve of ex-communists By next year Third-World inflation should more than halve to SA levels

"The developing world would appear to be at a critical juncture," says the IMF "If reforms take hold and the external environment is favourable, the rest of the decade could see sustainable growth in per capita GDP "

But any backsliding from reform will mean "growth is likely to remain elusive "

The IMF's forecast is liable to prove no more accurate than most others There are imponderables which can wreck even its modest projections Chief among these is the erosion of the capacity of Japan's banks to lend (see Page 25) There is also the course of German inflation over the next few months — though the IMF is looking for a sharp decline from the present 4,7% — and hence the Bundesbank's monetary policy which threatens growth in the rest of Europe

START UP

World economic outlook highlights

	1991	1992	1993
Output (Real GDP)*			
World	−0 3	1,4	3,6
Industrial countries	0,8	1 8	3,3
US	−0,7	1,6	3,5
Japan	4 5	2 2	3 9
Germany	1 2	2 0	3,0
EC	0 8	1 8	2 8
UK	−2,2	0,8	3,1
Developing countries†	3,3	6,7	5 4
Africa	1 4	2 7	3,0
Asia	5 8	5 5	5,7
Middle East	0,4	15,0	7 3
W Hemisphere	2 8	2 7	4 2
E Europe	−16,6	−1,0	3,9
Former USSR	−17 0	−17 5	n/a
Consumer prices*			
Industrial countries	4 4	3 3	3 2
US	4 2	3 1	3 1
Japan	3 3	2,2	2,4
Germany	3,5	3 8	3,7
UK	5,9	3,7	3,1
Developing countries†	41,4	37,6	16,1
E Europe	134 7	95 0	44,0
Former USSR	86 0	1 000,0	n/a
Unemployment rates (%)			
Industrial countries	7 0	7 3	7,0
US	6,8	6,7	6 2
Japan	2,1	2,1	2,2
Germany	6 5	7 6	7 6
EC	9 1	9 7	9 6
UK	8 1	9 7	9 7
Current account ($bn)			
Industrial countries	−24 0	−49 0	−68 0
US	−9,0	−53 0	−69,0
Japan	73,0	93,0	88,0
Germany	−21 0	−14 0	−9,0
UK	−8,0	−15,0	−16,0
Developing countries†	−85 0	−71 0	−72,0
E Europe	−7,07	−7,0	−6,0
Former USSR	−2,0	n/a	n/a
World trade volume*	**3,3**	**5,0**	**6,3**

* Annual percentage change † Excluding eastern Europe and former Soviet Union

Source IMF World Economic Outlook April 1992

Bank stresses need for IMF facility

156

B Day 6/5/92

SHARON WOOD

SA should urgently negotiate an IMF "precautionary stand-by facility", Standard Bank urges in its latest Economic Review released yesterday.

The current account of the balance of payments still needs to be nursed, it says

An IMF facility would provide SA with a firm fall-back position to manage the external constraints on economic growth more easily

"The sluggishness of global recovery, coupled with SA becoming a net importer of food this year, conspire to pressurise the current account

"Since SA remains a net exporter of capital, the balance of payments will remain fragile under these conditions "

Standard Bank believes SA has a good case for the extension of an IMF stand-by facility

The two pre-conditions for a successful application are structural imbalances in the economy and an inability to pursue active development policies because of a weak balance of payments position

"There is ample precedent for the extension of the facility, even on a precautionary basis," it says

Evidence of this is the 100 agreements since 1956 which have been negotiated with the IMF and under which no drawings were made, because in each case a serious current account deficit did not materialise.

Standard Bank says the current economic recession is only marginally short of becoming the longest downturn in the post war years and also nearly matches the most severe post-war recession in 1985/86

Expectations of a stabilisation in the economy have not materialised, it says.

The reasons for the prolonged recession are a sluggish world economy, a poor gold price and an uncomprising anti-inflationary stance by the monetary authorities

The extreme severity of the drought is stunting the potential for the growth rate to pick up and will also initially impact on the current account. Maize imports this year would cost about R1,8bn.

North vs South: The great divide

A recent report points out that the rich fifth of the world now gets 150 times the income of the poorest fifth.

By **CHARLES ENGLISH**

North

- Life expectancy is 75 years
- Average income increased 3 5 times in the last 30 years
- Social security benefits average 11% of GDP annually
- One person in two has a television
- There is one doctor for every 460 people
- 60% of people are served by water treatment facilities

156

South

Wlmail - 22/5 - 28/5/92.

- Life expectancy is 63 years
- 750 million people per year suffer from acute diarrhoeal diseases, of which 4 million die
- 1.3 billion people have no access to safe drinking water
- 2.3 billion people lack access to sanitation services
- 135 million people live in areas affected by desertification

DEVELOPING countries are losing 10 times as much money to rich countries as they receive in aid because of unequal access to the world's financial, trade and labour markets. These restrictions cost poor countries $500-billion a year, according to a new report by the United Nations Development Programme (UNDP).

Furthermore, the gap between rich and poor has doubled during the past three decades The richest fifth of the world's population now receives 150 times the income of the poorest fifth

While the rich nations constitute only a quarter of the world's population, they consume 70 percent of the world's energy, 75 percent of its metals, 85 percent of its wood and 60 percent of its food.

These are just a few of the conclusions of the third Human Development Report, one of the largest surveys of its kind, which calls for dramatic changes to open up global markets The alternative, it points out, is worsening poverty in the developing world and increased pressure for large-scale migration.

Despite these tragic findings, a new World Bank study projects per capita growth in developing countries this decade of 2,9 percent each year This represents a large increase over economic growth in the 1980s, which averaged a stagnant 1,2 percent

The World Bank credits sweeping policy reforms in developing countries themselves for their projected increased growth

Both organisations agree that industrialised nations must bring down trade barriers to encourage growth

The wealth gap ... As wide as the grave

According to the World Bank, a halving of the trade barriers in the United States, Japan and the European Community would raise developing countries' exports by more than $50-billion — almost as much as development aid to the developing world

"Global markets remain restricted," agrees UNDP administrator William Draper "Where can developing nations sell their products unless global markets are also freed of protectionist restraints?"

The report warns "It should never be forgotten that poverty needs no passport to travel across international frontiers in the form of migration, environmental degradation, drugs, disease and political instability "

Current aid levels are too low to help close the wealth gap Moreover, existing aid is badly distributed Only one-quarter of it is earmarked for the 10 countries that contain three-quarters of the absolute poor of the developing world.

Less than seven percent of total aid is spent on basic education, primary health care, safe drinking water, nutrition and family planning programmes

The aid system, says the report, "has critical weaknesses, in quantity, equity, predictability and distribution"

South Asia, home to nearly half the world's poorest people, receives $5 a person in aid Aid-receiving countries in the Middle East, with three times South Asia's per capita income, get $55 a person.

The richest 40 percent of the developing world population receives more than twice as much aid as the poorest 40 percent

Countries that spend heavily on arms — more than four percent of their gross national product (GNP) — receive twice as much aid per head as more moderate military spenders

The UN target for Official Development Assistance is 0,7 percent of GNP from each industrialised country The average contribution is only half of that — 0,35 percent

This average covers a wide variance that shows Norway giving 1,17 percent of its GNP, while the US gives just 0,19 percent Britain gives less aid per person of its population than any other country in the European Community

Official aid is highly unpredictable Seventy percent of overseas aid is given directly by one country to another, and is therefore sensitive to political relations between the two nations

Hence if a donor country withdraws aid because of human rights violations, poor people can suffer a double punishment political oppression and a withdrawal of aid

In 1960, the fifth of the world's population that lived in nations with the highest per capita incomes were 30 times better off than the poorest fifth By 1989, that disparity had doubled to nearly 60 times richer

But wide discrepancies exist within many countries Comparing the billion richest individuals in the world with the billion poorest, that ratio would leap to at least 150 to one, according to the report

"In developing countries, it is not the quality of life that is at risk, it is life itself," says the report "Poverty is as great an enemy as misspent affluence "

The report proposes a global pact between rich and poor nations to lift the poor out of their poverty Funding would, it is suggested, come from a reduction in military expenditure worldwide — giving a peace dividend of $1 500-billion

The pact would also lay plans for the opening up of global markets, a reform of foreign aid and the striking of a new "debt bargain" to halt the current net transfer of $50-billion each year from developing countries to industrial countries

Major changes in the functioning of the World Bank, the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (Gatt), Global Environment Facility and UN programmes are also recommended by the report, to ensure better management of the global economy

As the UNDP report points out "Poor nations cannot accept that the industrial countries are entitled forever to an 85 percent share of the world's income and a perpetuation of their energy intensive patterns of consumption " — Gemini News

World Bank aid for Africa hurts those it would rather help

B/Day 29/5/92. (156)

BEN TUROK

SO the new broom at the head of the World Bank is promising to help sweep away poverty in Africa ("World Bank chief's pledge to reduce poverty", Business Day, May 22) Indeed, he invites us to judge the bank's performance by the demanding criterion that its lending will lead to "sustainable poverty reduction"

This is a tough commitment since all the trends of the past decade have been in the reverse direction, increasing poverty amid serious economic malfunction What are the chances of reversing the trend?

First, we need a reminder that, although there is a welcome emphasis in Lewis Preston's statements, his predecessor Barber Conable was also not short on pro-poor declarations In the authoritative report issued by the Bank of Africa in 1989, From Crisis to Sustainable Development — A Long-term Perspective Study, Conable urged "special measures to alleviate poverty and protect the vulnerable ... empowering ordinary people, especially women ... and a more bottom-up, less top-down approach to programme design rather than the imposition of blueprints"

Yet the record in Africa since 1989 is no better than in the previous decade, and the condition of the poor probably worse Why?

First, Africa's debt. This now stands at $270bn with an annual debt servicing requirement of $25,3bn — a massive drain on Africa's export revenues The IMF and World Bank made a $4,7bn profit from Africa between 1986 and 1990 — much of this in loan repayments

The bleeding of Africa continues In 1990 there was a net repayment to the IMF from Africa of 400-million Special Drawing Rights (or SDR, the reserve currency the IMF uses in settling international transactions and based on a basket on currencies) Between 1983 and 1990 Africa has paid back $180bn in interest repayments Will the World Bank and its sister institution the IMF cancel Africa's "crushing debt burden" (the IMF's own words) in order to achieve poverty reduction?

Second, there is the matter of Structural Adjustment Programmes (SAP) which are imposed by the IMF before lending These programmes entail devaluation, cuts in government spending, removal of price controls including those on basic necessities for the poor, and so on. Does the World Bank now intend to dissociate itself from these measures? If not, how can there be any significant poverty alleviation? The SAP is designed specifically to serve as a harsh medicine

In the latest issue of the IMF and World Bank's quarterly publication, IMF head Jean-Michel Camdessus says "Adjustment is an extremely difficult process . many countries continue to be buffeted by external shocks, so it is not surprising that some of these efforts were not as successful as had been hoped"

The solution he offers is that since "vulnerable groups suffer during adjustment in the short run ... we try to identify these groups and target short-term subsidies, for example food supplies" Fine, but the problem is that when the whole country is going through the pains of adjustment, the poor are more likely to suffer than the rest

This has certainly been the case in Ghana, the country in Africa most favoured by the IMF It received $4bn in loans since 1983 only to find, in the words of its finance minister, that the benefits had yet to be seen in improved living standards Indeed, internal investment had not increased either, indicating that the business sector had yet to be convinced that the SAP was a feasible programme of recovery

Doubts about SAPs were earlier expressed by no less than the head of the World Bank for Africa, Edward Jaycox, writing in Africa Update, a World Bank bulletin published in 1989 "Neither the World Bank nor anyone else really has all the answers on what an effective adjustment programme should look like (and) it is very hard to predict the social impact of a given programme in advance . it is incredible how little is known about where and how to manage the social side"

☐ PRESTON

Quite So why have the bank and the IMF persisted with SAPs, with their resulting increasing poverty? Some argue that it is easy to criticise the IMF and the bank, but Africa has no other options

Well, there are alternatives, as the UN Economic Commission for Africa (ECA) points out.

First, before undertaking any further experiments, the IMF and the bank must be pressed to cancel Africa's debts to them and to urge the cancellation of official bilateral debt. Without that, their claims to poverty alleviation cannot be taken seriously

Projected 1990 figures show sub-Saharan Africa's total debt to be $162bn, of which official bilateral debts (that is, between governments, in this case mostly with OECD countries) was $65bn, multilateral (World Bank and IMF) debt $43bn and total private lending $55bn Elimination of the first two categories would eliminate about two-thirds of the region's debt and close to that in servicing obligations

Second, they should be pressed to take action about the prices paid for Africa's export commodities These have fallen by 30% in a decade, making a large contribution to the fall in Africa's GNP to $140bn in 1990 from $200bn in 1980 — a 30% decline in per capita income. Import duties imposed on primary commodities by OECD countries are high, depress prices and should be lifted Duties on beneficiated commodities are even higher — which is why Kenya, for example, does not have an industry making instant coffee

The OECD governments are interfering with the free market and constraining the free flow of commodities which could help Africa to reduce its burden

Another major element in Africa's recovery is a political and economic restructuring Essentially, we need to see that the present wave of democratisation leads to the curbing of capital flight by the elites, severe pruning of imports, especially luxury items, and massive cuts in military and police spending

The tendency to bureaucratic tyranny in Africa is extremely costly though, one has to say, the tendency has been reinforced by the harsh measures required by the IMF The surge towards democracy must therefore be associated with demands for drastic cuts in government spending and the freeing of resources to stimulate production, not so much for export but for internal consumption

Also, since many countries are too small to be anywhere near self sufficient, regional co-operation is a must, and not simply in trade but in joint ventures, maximising the comparative advantage of climate and location of each

Finally, Africa must take much more seriously than before the notion of bottom-up development involving popular participation in projects on the basis of common decision-making Neither the World Bank nor any other external agency can democratise economic life in Africa, it has to come from within Fortunately, this understanding is taking root, and it holds much promise. It reflects the main point of this article — Africa cannot find relief from poverty in the declarations of the World Bank, it has to stand on its own feet.

☐ **Turok is director of the Institute for African Alternatives.**

In my view . . .

A daily commentary on current economic affairs by writers of the Star.

STAR 1/6/92.

Blessings from abroad

[redacted] 156

By John Spira

The prospect of South Africa receiving funds from the World Bank and the IMF is viewed positively by leaders of all political persuasions

Correctly so, since SA needs capital for socially related infrastructural spending And the money being channelled in this direction would thereby be freed to fill the depleted tank that drives the economic engine.

More importantly, an influx from global institutions would be tantamount to a signal to world bankers and investors that SA can be trusted to use foreign capital to improve the living standard of all.

However, several criteria must be met before the sought-after dollars reach their destination.

While the politics aren't yet right, at least they seem to be getting there Equally crucial is the requirement that the World Bank and IMF be satisfied that a firm enough foundation exists for growth to proceed from where it languishes at present.

They will certainly query the inability of the monetary authorities to conquer inflation via the orthodox measures they've pursued for so long.

They'll want to know why the Government hasn't eliminated the monopoly pricing policies of major retailers. They'll ask why the outcome of an official inquiry into the exorbitant margins being reaped by exploitationists in the food sector hasn't yet seen the light of day — weeks after its scheduled release date.

And after the money has landed, they'll want to know how it's being spent and whether or not the economy is being run in such a way that such expenditure reaps the optimum results

For those many of us seeking an end to corruption and mismanagement, along with all the benefits accruing from an influx of foreign capital, we say roll out the welcome mat.

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in terms of the US currency - **the dollar, and the dollar was fixed at the value of $35 dollars an ounce of gold.** Thıs made possible the stabılisatıon of world trade after the War but on the terms of the USA as the domınant imperıalıst power.

Because the other ındustrıalısed countrıes were so shattered however, specıal methods were requıred so that these countrıes could have **credit** to buy Amerıcan goods. The IMF was set up as a fund to provıde loans to countrıes whıch would not otherwısc have the dollars to buy goods The World Bank was set up to provıde loans for specıfıc **development** projects lıke dams or power statıons sınce these were ımportant to ensure that countrıes were a vıable market for commodıtıes

The components of the Bretton Woods agreement, such as the setting up of the dollar as the international expression of value, the World Bank and the IMF, have shaped the world ever since then. By the extensıon of credıt the capitalıst world experienced a boom as mostly US commoditıes found a ready market. The economıes of Europe and Japan were built up on thıs basıs and the USA was ensured contınued world dominatıon because all trade took place vıa ıts currency and ıt had the greatest votıng rıghts ın the World Bank and the IMF. Moreover, because ıt domınated the world's market, the USA became the champıon of free trade and the openıng up of markets. When other countrıes attempted to build their economıes agaınst US domınatıon by restrıcting foreıgn companıes and buıldıng theır own home market, then the USA would try to do away with these restrıctıons

A Spectre is Haunting South Africa...

Last year the National Party government imposed **Value Add**
The Governor of the South Afrıcan Reserve Bank, Chrıs Stal
interest rates (the money people have to pay for credit) very
circulatıon The Johannesburg Stock Exchange (JSE) has ren
those whıch lımıted the tradıng powers of foreıgn companıes
Fınance, Derek Keys, announced that foreıgn companıes and
interest accrued on their ınvestments ın South Afrıca.

Sınce 1987 the state has committed ıtself to **privatising** most
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housıng. In educatıon, the state's **Education Renewal Strate**
strategy of cutting the state's responsıbılıty and makıng pare

The End of the Bretton Woods Agreement

However, by the beginning of the 1960s the USA entered a period of crisis and found ıtself challenged by the rebuılt economıes of Germany and Japan. Moreover, the expenses of the **Vietnam War** pushed the US ınto Balance of Payment difficultıes for the first tıme. By 1972 the USA could no longer prop up the capıtalıst world on ıts own terms and **the dollar was devalued.** Thıs meant that the world no longer had all their currencıes ın a stable relatıon wıth the dollar and the dollar no longer had a fixed relationship with gold The period became one of what we call **floating exchange rates**, where the value of all countries' currencies went up and down on a daıly basıs This has changed the role of the World Bank and the IMF.

The World Bank and the IMF - Their new Role

● The Debt Crisis

Since the 1970s most of the countrıes of the world have suffered from a crısıs of **inflation.** Suddenly ıt requıred a vast amount of money to buy what formerly cost relatively lıttle. How many of us can remember a rand note and the fact that wıth such a note ın 1972 we could buy 15 lıtres of petrol and travel for a whole week on that petrol? Today a motor-car drıver can't even buy 1 lıtre of petrol for a rand and a rand note no longer exısts because ıt ıs now regarded as small change. Thıs ıs an example of what we call ınflatıon.

With **floating exchange rates** and **inflation** many currencıes, partıcularly those of Thırd World countrıes, have became so worthless that they cannot be used for ınternatıonal trade. Most of the countries of the Thırd World were forced to borrow enormous amounts of dollars ın order to buy the goods they needed from the industrıal countrıes. Wıth ınflatıon, and few goods that they could sell to the rich countrıes, the borrowıng of the third World countrıes reached such proportıons that a **Debt Crisis** came about ın the 1970s and 1980s.

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side he pointed out that the treasury's continued commitment to **high interest rates** and **curbing state expenditure** is good for the World Bank's vision of South Africa.

What is the World Bank and is its programme for South Africa in the interest of the working class? What is the IMF? Why do peasants reply with such anguish to people who talk about the benefits of IMF loans: "Please don't IMF us" ?

The World Bank is a short name for the **International Bank for Reconstruction and Development** which is an international bank which provides loans for development projects. The shareholders of the Bank are the governments of the major capitalist countries who have voting rights in the bank in proportion to the amount of money they put into the Bank. The IMF is also a bank with funds supplied by the member countries but which supplies **short term loans** to countries which have **balance of payment** problems These are countries where the value of the goods imported is more than those the country exports, so that they are forced into debt. Both the World Bank and the IMF were started at the end of World War 2.

The Bretton Woods Agreement

At a small town in the USA called Bretton Woods, the finance ministers of the major imperialist powers sat down in 1944 to attempt to solve the mess in the capitalist world after the years of war. The USA emerged towards the end of the War with complete domination of all world trade - about 70%. Its economy was the only one not shattered by the War. On this basis the USA was able to operate as the greatest imperialist power.

But trade depends on the use of money or **currencies**, just like we use rands when we buy things. Because every country has a different currency, international exchange needs some **standard** to measure the value of currencies by. Earlier on in this century currencies were expressed in terms of **gold** as their standard. At Bretton Woods an agreement was made to express all currencies in the world countries were a viable market for commodities.

The components of the Bretton Woods agreement, such as the setting up of the dollar as the international expression of value, the World Bank and the IMF, have shaped the world ever since then. By the extension of credit the capitalist world experienced a boom as mostly US commodities found a ready market The economies of Europe and Japan were built up on this basis and the USA was ensured continued world domination because all trade took place via its currency and it had the greatest voting rights in the World Bank and the IMF Moreover, because it dominated the world's market, the USA became the champion of free trade and the opening up of markets. When other countries attempted to build their economies against US domination by restricting foreign companies and building their own home market, then the USA would try to do away with these restrictions

The End of the Bretton Woods Agreement

However, by the beginning of the 1960s the USA entered a period of crisis and found itself challenged by the rebuilt economies of Germany and Japan. Moreover, the expenses of the **Vietnam War** pushed the US into Balance of Payment difficulties for the first time. By 1972 the USA could no longer prop up the capitalist world on its own terms and **the dollar was devalued.** This meant that the world no longer had all their currencies in a stable relation with the dollar and the dollar no longer had a fixed relationship with gold. The period became one of what we call **floating exchange rates,** where the value of all countries' currencies went up and down on a daily basis. This has changed the role of the World Bank and the IMF.

The World Bank and the IMF - Their new Role

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With **floating exchange rates** and **inflation** many currencies, particularly those of Third World countries, have became so worthless that they cannot be used for international trade. Most of the countries of the Third World were forced to borrow enormous amounts of dollars in order to buy the goods they needed from the industrial countries. With inflation, and few goods that they could sell to the rich countries, the borrowing of the third World countries reached such proportions that a **Debt Crisis** came about in the 1970s and 1980s.

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A Spectre is Haunting South Africa...

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Finance, Derek Keys, announced that foreign companies and individ
interest accrued on their investments in South Africa.

Since 1987 the state has committed itself to **privatising** most of the
railways. Together with privatisation have gone massive cuts in stat
housing. In education, the state's **Education Renewal Strategy** and
strategy of cutting the state's responsibility and making parents pay

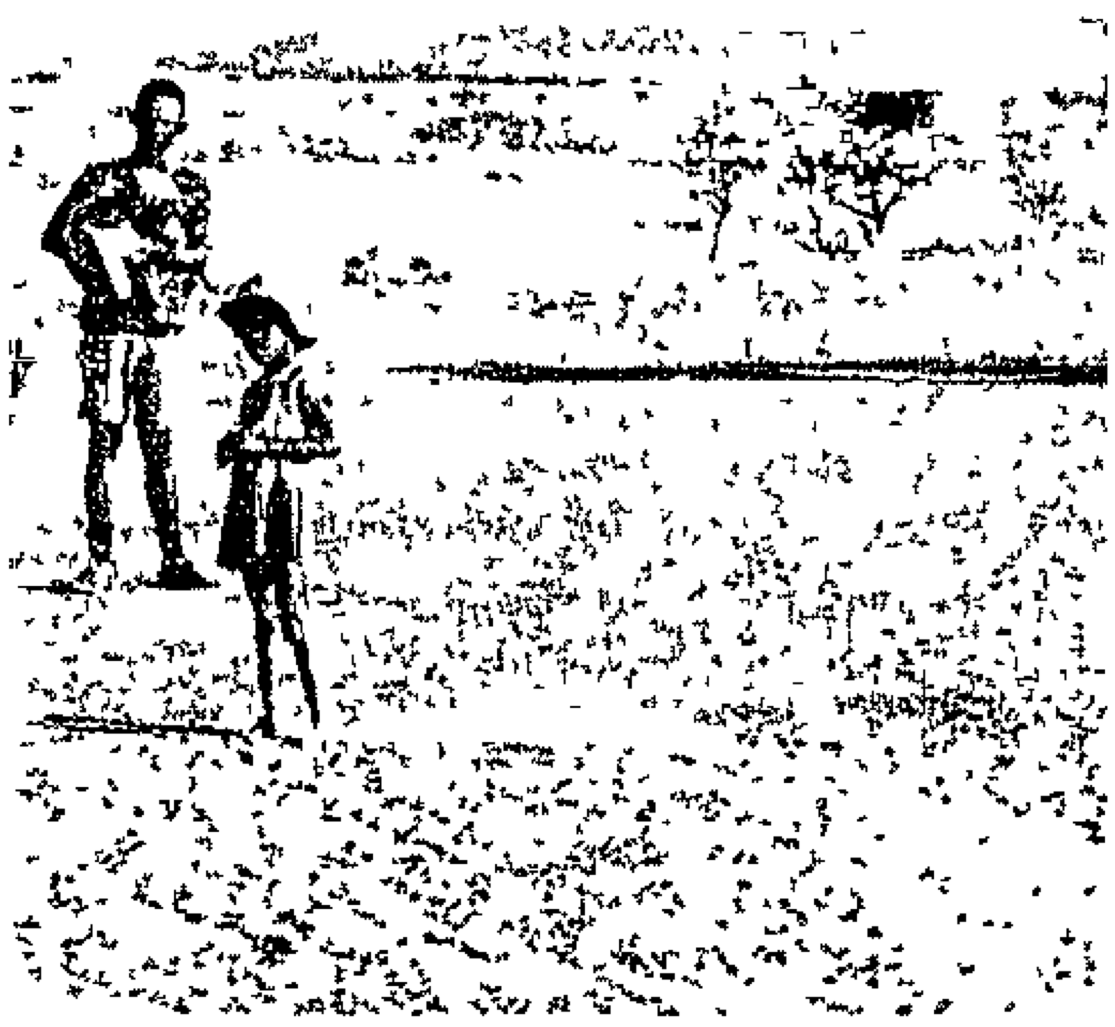
Issues

ıtional Monetary Fund (IMF)

ɛarning |NJ 19/6 – 25/6/92

156

"..the economic programmes (of the World Bank) .. are aimed at further ensuring Africa's ability to repay its debts to the rich nations, not to strengthen Africa's independent development. These programmes are essentially based on theft, deceit and intimidation Theft, because international transfers from the poor to the rich are rapidly increasing. Deceit, because the poor are always told that development is just around the corner, if they would only tighten their belts for a short while Intimidation, because conditionality keeps the poor countries under constant pressure. "If you do not do it our way, we will cut you off from further loans and aid."
— Fantu Cheru, Advisor to the Ethiopian government



(VAT) on the people of South Africa sted that is necessary to keep cut down on the amount of money in estrictions on trading particularly sday 4 June the new Minister of ..ls would no longer pay tax on

ublic sector - from ISCOR to the expenditure on hospitals, schools and Model C schools clearly spell out the of education

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untries in Africa were in the position where lf of their wealth was debt Countries like in so much debt that they started causing the banks who had loaned them the money in because they had no hope of ever paying People started saying "If you owe the bank lars then it is your problem, if you owe the llion then it is the bank's problem "

rld Industrialisation

60s and early 70s many Third World ght battles against US imperialism and tried ..lves from dependence and poverty For most y the Third World countries have engaged in s sellers of cheap primary goods, such as ..als and coffee, and buyers of manufactured s machinery and tools This has kept them in the imperialist powers and the multinationals these goods Some countries therefore attempted to restrict the domination of the multi-national companies and embarked on programmes of **local industrialisation and making their own goods** Other countries such as Cuba looked to creating **regional markets** of Third World countries to break the hold that the imperialist countries held over the Third World

The threats posed by Third World debt to the imperialist world, and the attempts by many poorer countries to try and escape the cycle of dependence, have brought about a **new role** for the IMF and the World Bank Whereas these institutions were started to rebuild Europe and Japan the IMF and the World Bank now play the role of **reopening Third World countries** for greater imperialist exploitation Ensuring that Third World debt doesn't threaten the world financial system and that economic programmes of Third Word countries are sabotaged, that has become the new role for the products of Bretton Woods

The Method Used by the World Bank and the IMF

The approach of these institutions is the carrot-and-stick method Countries are examined and given a programme which they must adhere to to qualify for loans This is called the World Bank's "**conditionality**" Frequently this "**conditionality**" must be adhered to even for loans from private banks The elements of their programme have most often been

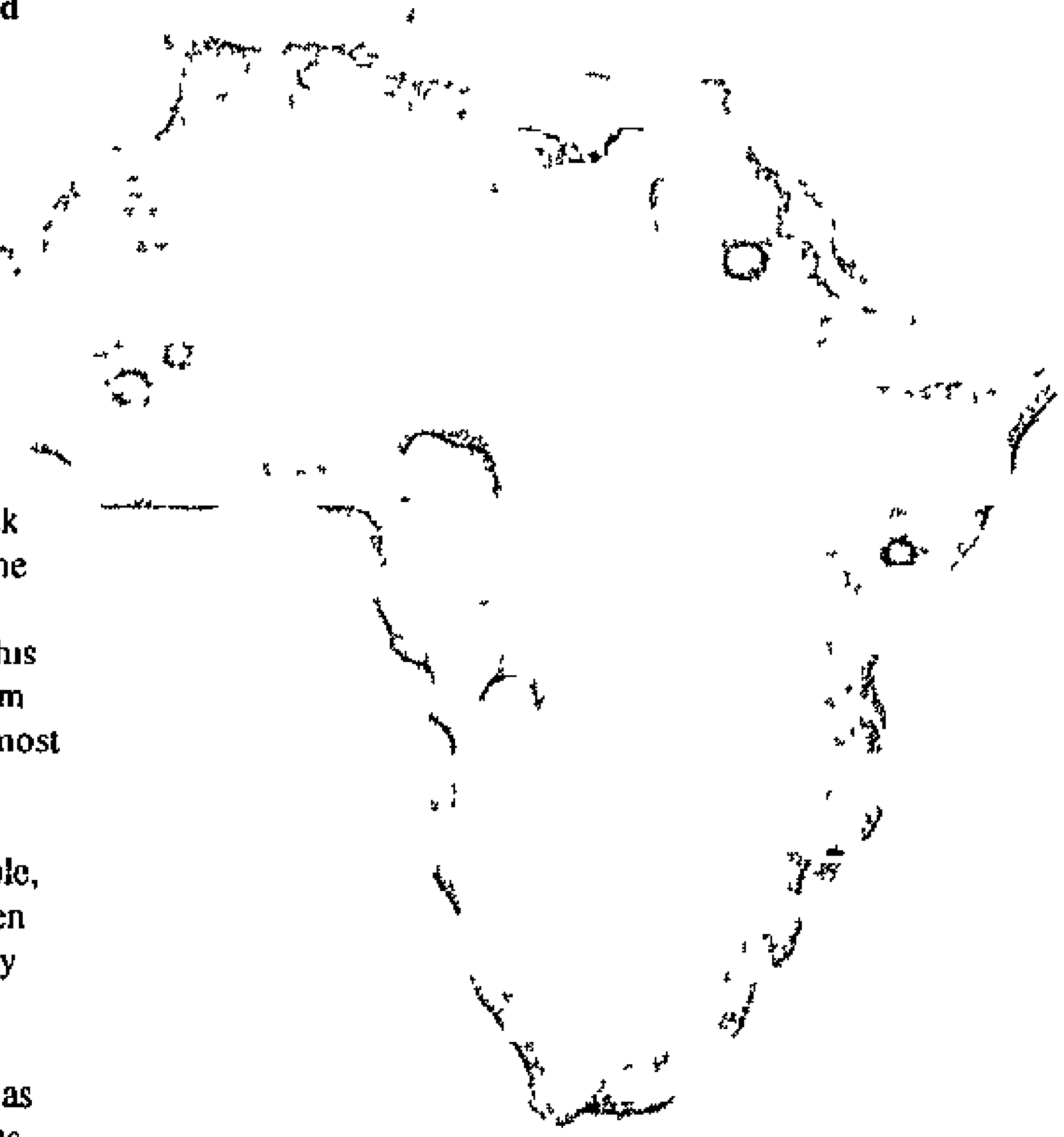
- trade and exchange restrictions must be reduced
- the country's currency must be devalued For example, Zambia has had to devalue the kwatcha by 84% between 1983 and 1987 and Nigeria has devalued its currency by 79% at IMF insistence
- state expenditure must immediately be cut. This has mostly meant cutting subsidies on basic foodstuff such as bread In both Algeria and Zambia this caused food riots
- state investment programmes must be cut and greater foreign investment encouraged

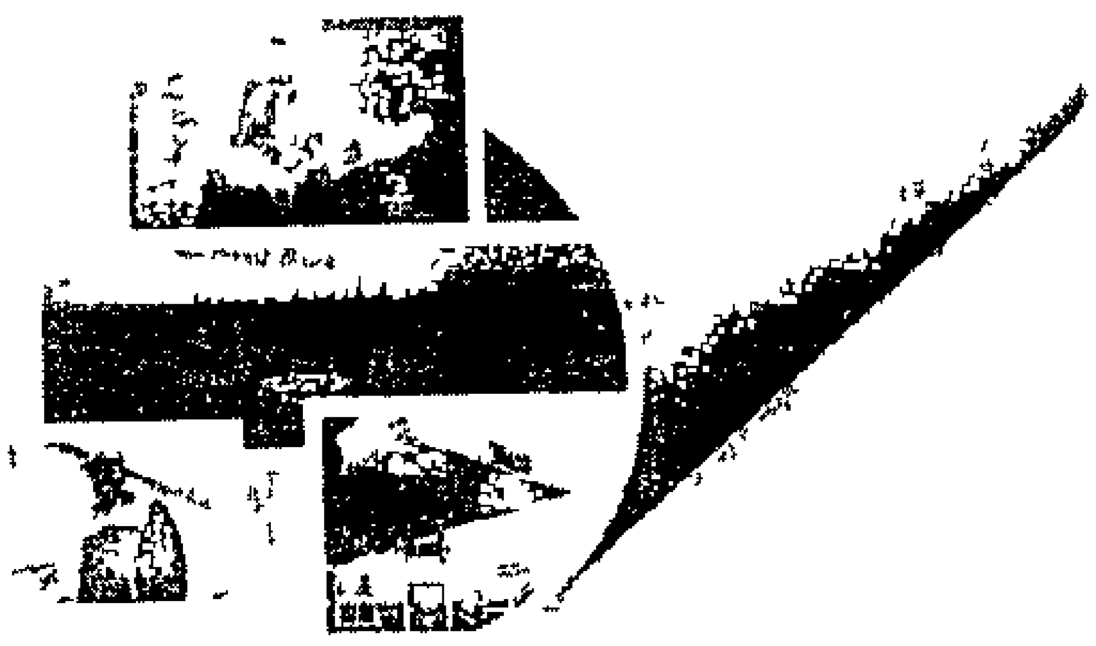
This programme has been given the name the **Structural Adjustment Programme (SAP)** by the IMF

The Choices for South Africa

The ANC and COSATU have argued against any attempt to restructure the economy before a democratically-elected constituent assembly But the need for money to finance the rebuilding of South Africa after apartheid has made many people think that the World Bank and the IMF can be such a source of money Some people in the liberation movement argue that we can use their money provided we have control and do not fall prey to their programmes Yet others say that the World Bank and the IMF will sabotage a democratic South Africa

With the important task of overcoming the legacy of apartheid capitalist poverty for the vast majority of South Africans, this is a difficult choice to make We need to debate these questions in our organisations and in our community We hope that this article can contribute to such a debate and help us make an informed decision about the role of the IMF and the World Bank, and whether they can help us finance our future development





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The World Bank and the Inte

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"Markets alone generally do not ensure that people, especially the poorest, receive adequate education, health care, nutrition and access to family planning... Openness to international flows of goods, services, capital, labour, technology and ideas spurs economic growth...Restoring the confidence of the private sector is now a major challenge for several countries with a long history of macro-economic instability."

— Barber Conable, President of the World Bank 1991

Restructuring the Economy - the World Bank and the IMF

The present government has been looking to join the IMF for some time now. COSATU has in fact argued that initiatives, such as privatisation and VAT, are the result of World Bank interference in South Africa. The World Bank has been doing reports on South Africa since 1987 and in 1991, its president was here. Out of these investigations and his talks with a broad range of officials and organisations, recommendations were made for South Africa.

The World Bank president spelt out what he regarded as the negative and positive features of South Africa. On the **negative** side he listed the fact that there was still too

in terms of the US currency - **the dollar, and the dollar was fixed at the value of $35 dollars an ounce of gold.** This made possible the stabilisation of world trade after the War but on the terms of the USA as the dominant imperialist power

Because the other industrialised countries were so shattered however, special methods were required so that these countries could have **credit** to buy American goods. The IMF was set up as a fund to provide loans to countries which would not otherwise have the dollars to buy goods. The World Bank was set up to provide loans for specific **development**

SA is in line for massive drought funds from IMF

S/Times (BUSS) 21/6/92 [redacted] 156

THE International Monetary Fund has initiated a masssive drought relief programme which could give South Africa access to billions of rands in loan credits.

By KEVIN DAVIE

IMF MD Michel Camdessus has identified SA as one of 13 countries blighted by the drought, which he describes as "probably the worst in 100 years"

Southern Africa, Camdessus says in a statement to the IMF's policy making interim committee, needs grain imports of $1,4-billion to $2-billion because of the drought South Africa accounted for "somewhat less than half this amount" His statement quantifies South Africa's expected maize imports at four to five million tons, or $583-million to $728-million This is 46% to 57% of SA's total funding quota which it can draw from the IMF

South Africa has a balance of payments surplus and so is not eligible for normal IMF finance But sources close to both government and the IMF say SA could access a special fund which finances temporary problems caused by loss of revenue on grain exports or additional costs incurred through increased grain imports

Member countries can apply for up to 83% of their quota in terms of this special facility In SA's case, this is 83% of 915 SDR's (special drawing rights), about R2,8-billion

The sources say the effects of the drought will be assessed by an IMF mission in August during their annual review of the economy

Mr Camdessus identified SA's key role in the drought-relief programme "Importation would depend upon access to SA's infrastructure such as ports, storage and transport systems"

South Africa has been denied access to IMF finance since the early 80s as a US law, the Gramm Amendment, has required its representative at the IMF to block loans to the apartheid regime

Criteria

But US President George Bush issued a statement in February saying the US wanted to be as helpful as possible in promoting a healthy economy in SA "We would therefore be prepared to consider an IMF facility, subject to the Gramm Amendment"

During the same month, US Assistant Secretary of State for African Affairs, Hank Cohen, said he did not believe that the criteria demanded by the Gramm Amendment would be "any problem at all"

Reserve Bank Governor Dr Chris Stals says that, since IMF programmes typically run for three to five years, the IMF preferred to do deals with governments which it believed would be around for that duration.

He says an application from an interim authority in SA would make it "easier for us and for the IMF"

A source close to the IMF says the interim committee had "responded" to Mr Camdessus' April statement by agreeing to provide policy advice and financial assistance on highly concessional terms The source says an application by SA would be "a matter of judgment for the SA government"

Surplus

A senior economist says SA should be able to import its maize needs this year and still maintain a surplus on the balance of payments, but added that access to IMF finance could mean that a final arrangement could be reached with foreign bankers on the debt standstill

"Access to IMF finance would be a signal to the banking community that international banking relations have been normalised

"If the debt standstill could be finalised, the outlook for 1993 brightens considerably," he says

IMF loans, but only to new govt

(156)

From SIMON BARBER

WASHINGTON — The IMF was unlikely to extend loans to South Africa until it was confident that a government was in place that would be able to stick to its policy commitments, a senior IMF economist said yesterday. CT 24/6/92

This was despite the fact that a growing number of shareholder nations — including the US — were signalling a readiness to support the restoration of South Africa's access to the IMF's balance of payments support facilities.

The official, who asked not to be identified, confirmed that Pretoria had made informal soundings about the possibility of obtaining short-term credits to help foot the bill for food imports necessitated by the drought.

He expected this would be discussed in the the next round of Article IV staff consultation in August.

Beyond that, however, he made it clear that lending would be dependent on SA presenting the IMF with a specific economic programme to deal with inflation or other structural problems.

Even then, the IMF's management would need "assurances that this programme is supported by a wide enough cross-section of the community"

IMF report on SA economy borders on mumbo-jumbo

BDay 1/7/92

NEVA SEIDMAN MAKGETLA

(156)

IMAGINE that the ANC's economic policy department embarked on policymaking by selecting a reputable fortuneteller from the back pages of The Sowetan

Imagine that, after appropriate prefatory rituals, the ANC's representative beseeched her, "Gogo, reveal the future to us What will happen if we set prescribed assets for financial institutions and impose an extortionate wealth tax, assuming that our government successfully invests these revenues in nationalised industries so as to improve the productivity of capital and labour throughout the economy?"

After the appropriate spells and formulae, our sangoma might well conclude. "My children, given your assumptions, I forecast an average 8,2% annual rate of growth up to the year 2000, as the government directs savings to more productive uses, while rising aggregate demand stimulates expansion I forecast unemployment will fall from an estimated 41,7% in 1990 to a mere 30,6% and, in the longer run, SA will become a major exporter of manufactures

"Virtually all economists, as well as my more trustworthy colleagues, must agree with this scenario After all, most centrally planned economies achieved similar or even higher growth rates in their first decade"

Somehow, I do not think that this policymaking process would meet with the approval of the business community And yet the methods employed in the IMF's recent publication, Economic Policies for a New South Africa, differ only in their scientific gloss.

The study gives none of its major conclusions any more empirical support than my hypothetical sangoma gives her views, which admittedly derive from preconceived assumptions, spurious statistics and unwarranted generalisations The only substantive difference in the two forecasting methodologies is that the sangoma might conceivably feel a deep connection with SA's popular traditions

Like the old lady's mystical passes and mutterings, the IMF economists' jargon and complicated equations serve to obscure the fact their conclusions derive, not from intensive research into the SA economy, but almost purely from the assumptions with which they start off The favourable reaction to their pronouncements apparently arises less from careful study of their argument than from an implicit faith in their authority

Certainly this lack of substance holds for all the IMF document's most widely heralded conclusions first, a disappropriate increase in government expenditures will slow growth and employment creation, second, higher wages mean soaring unemployment; third, a restructured budget will not substantially improve social services for blacks; and finally, taxes are too high

To reach its first conclusion, the IMF starts by supposing that "government savings are reduced relative to the baseline case, but there is no corresponding increase in foreign or private savings" (p16) Compared with its baseline scenario, it finds — not surprisingly — that in this hypothetical situation investment, employment generation and growth rates would all fall.

But how convincing is that conclusion? All it does is mirror an unverifiable assumption. And that assumption is not universally accepted, since it ignores the "crowding-in" hypothesis and arguments that redistribution may ultimately stimulate private investment. Like my sangoma's predictions, the conclusions remain not a tried and tested statement of fact, but an elaborate disguised hypothesis

The IMF document's second conclusion, on the need for wage restraint, similarly derives, not from investigation of SA realities, but from the distinctly controversial assumptions built into the model. In this case, however, the IMF staff takes advantage of one of the great mysteries of modern economics: the ability to use mathematics to appear scientific while completely confusing the uninitiated.

Specifically, the IMF study builds its model around a Cobb-Douglas production function. The basic equation incorporates the (untested) hypothesis that capital and labour form perfect substitutes. This assumption permits the conclusion that the rise in the relative price of labour will translate swiftly and inexorably into the replacement of workers with machinery While it may make sense in industrial economies, however, it seems dubious in Third World countries like SA Moreover, the exclusive focus on the production function rules out exploration of whether rising wages will ultimately strengthen consumer demand and consequently job creation

The study's third conclusion, that "redistribution policies alone will not be sufficient to ensure a sustained overall improvement in living standards" (p18) draws not on mathematical magic but on the simpler technique of manipulating adjectives. In this way, the IMF document makes a strong case from data that, at best, could be read either way.

The study contends, for instance, that "the scope for raising education expenditures on black pupils is relatively limited" because equalising spending on all students would increase per capita funding for blacks "by only about 50%" (p24) Given the same statistic, however, the opposite argument seems at least as convincing the scope for raising education expenditures on black pupils is relatively great, because per capita spending on black students could rise by a whopping 50%.

Finally, consider the study's conclusion that taxes are high. This statement might seem strange, since its own calculations demonstrate that the overall tax burden in SA, at 21% of GDP in 1980-88, is much lower than that of industrial economies (36%), and slightly lower than the 22% average for "selected non-oil middle-income countries".

But no well-versed economist need let a few facts stand in the way of a preconceived opinion. The IMF staff turns to a novel approach. They consider the tax burden by racial groups — "Asian, black, coloured and white," — without any wishywashy apologies for the use of apartheid categories They then contend, "at 32% of its respective income, the tax share of the white sector of SA is very high by the standards of other middle-income countries" (p29) They add that whites do not receive a proportionate share of government spending

We may well wonder at the weird world we have fallen into — far stranger than any sangoma's 087 recording Here, apartheid no longer exists In fact, white people have disappeared altogether We have, instead, an innocuous "white sector" which, it seems, differs from the rest of the economy only in that it must pay higher taxes In a footnote, the authors have the grace to mention that whites constitute "the bulk of the top quintile of income recipients" (p29) But they never discuss the implications of this observation

This particular piece of necromancy leaves an unpleasant aftertaste. In effect it tells the wealthy that, since they belong to a specific ethnic group, they need not pay for their historical privileges As long as the richest South Africans constitute a distinct ethnic sector, it suggests, they can legitimately demand tax cuts or even higher subsidies We must go back to my sangoma for guidance: all this time, it seems, we have identified the wrong folks as the victims of apartheid

In sum, the IMF study pulls all its major conclusions out of thin air These magical origins do not mean that we must reject its hypotheses out of hand But we should not confuse the incorporation of esoteric formulae, imaginary figures and worldly references to international experience with evidence of relevance to SA

Together with Cosatu and the civics, the ANC has established a variety of large-scale research initiatives to examine a range of policy proposals These research programmes aim to elaborate measures to achieve higher living standards for the majority of South Africans while maintaining transparent and accountable government as well as essential macroeconomic balances

□ **The author is a member of the ANC's economic policy department and is an economics lecturer at Wits University.**

IMF gives Zambia millions in aid

(156)

■ LUSAKA: The IMF has given Zambia $100-million (R275-million) as debt relief and $300-million (R825-million) as drought and commodity relief aid.

S/Times 5/7/92

firmed by hospital checks and eyewitness reports There was no information on casualties among Hekmatyar's men

Kabul was quiet yesterday morning but without water or power - *Sapa-Reuter*

IMF aids Russia

Sowetan 6/7/92. (156)

■ Support for economic reform

MOSCOW - THE head of the International Monetary Fund (IMF) said yesterday that he would recommend the fund start releasing money to support Russia's economic reform plans

IMF managing director Michel Camdessus met acting Russian Prime Minister Yegor Gaidar to discuss the reforms and an official joint statement released afterwards said the two men had agreed on a series of steps to strengthen the plans

President Boris Yeltsin said on Saturday Russia was not satisfied with the IMF position and would do without a planned aid package unless it dropped some stipulations - *Sapa-Reuter.*

IMF policy stifling small traders

GPress 12/7/92 (156)

ORLIVIO GUSTAVO kick-started his bakery and snack bar in Maputo last month with a 7 000-dollar loan from he government's Employment Creation Office (GPE).

Today he boasts "the cheapest bread in he city" with constant queues for bread.

Gustavo is typical of the small businessman who has profited from Mozambique's radical change from a rigid state-controlled economy.

From the peasant farmer, driven to town by a 16-year war in the countryside, to road sweepers and ministers, there is hardly an urban Mozambican nowadays who does not engage in a little private business

But despite the official green light, small businesses complain of weighted odds.

They say poor access to credit is a major problem

Arnaldo Namboro recently left his job with a tyre company to start a small decorating business.

All he needed to turn his one-paintbrush show into a civil construction company was a small loan from the bank for a few machines

But the bank was not interested

"For small businessmen like me it's impossible to get credit from the bank

"Those people have no faith in us," says Namboro.

Comments government labour consultant Fion de Vletter· "There are plenty of budding entrepreneurs out there who could help revive the economy, but they can't get credit to start up

"Following 500 years of Portuguese colonialism in Mozambique and 15 years of socialism – until 1990 when a new constitution was introduced – few Mozambicans have any accumulated capital, or experience of a formal market economy."

Mozambique is classified by the United Nations as the world's poorest nation with 60 percent of its 15 million people living in "absolute poverty"

This situation has worsened since the introduction in 1987 of economic austerity measures under the International Monetary Fund's (IMF's) Structural Adjustment P gramme (SAP).

The IMF's plan for beating inflation (r ning at about 50 percent) is to rest money supply.

De Vletter argues the IMF policy is k ing the very private initiative it aims encourage, imposing excessively tight cre ceilings on the state-run banking syst especially for foreign exchange

"When you block credit, local busin can't take off or develop.

"That means no local production, con ued dependence on imports – and that really the cause of inflation," says De V ter

The best credit facility open to sm scale, urban business at present is a : million dollar credit line through the Gl

The GPE claims a 75 percent loan rec ery rate, according to De Vletter.

Meanwhile, access to bank credit is o available to business in the formal sect Between 70 to 80 percent of Mozambiqu economy lies in the informal sector – A

IMF, Russia sign historic deal

B/DAY 13/7/97

WASHINGTON — The IMF confirmed yesterday outlines of a historic economic agreement with Russia and said a further accord that might open up new loans could be expected later this year. 224 156

A senior IMF official, who asked not to be identified, said the agreement set the stage for billions of dollars in outside assistance and should make the country more attractive to foreign investors.

The accord was reached this month on the eve of the just-completed G-7 economic summit in Munich, but the IMF was unable to confirm details at that time.

The accord requires Russia to reduce its budget deficit from about 17% of GDP to about 5% by the end of the year.

The agreement also calls for the country to reduce inflation, running at about 15% or 20%, to single digit levels.

That agreement, which provides $1bn in assistance, should be completed before August 10 when the IMF's executive board takes a two-week recess.

Potentially the new standby agreement, expected this autumn, could provide an additional $3bn or more.

The official brushed aside criticism of the IMF by Russian President Boris Yeltsin during the negotiations.

After the standby programme is put in place, the official said the IMF would watch to see its impact on the stabilisation of the rouble and once it appeared to lose its volatility, the so-called stabilisation fund could be put in place.

Asked about reports that this might take place early next year, he said: "Sure, why not; the sooner the better."

This $6bn fund would be used to underpin the rouble, offsetting radical moves by the currency in the market.

The official made it clear that the former Soviet republics that continued to use the rouble would need to come to an agreement with Russia so that monetary policy between the separate states could be harmonised. — Sapa-Reuter.

Graham Linscott feels it's time for drastic, visionary economic measures

Step forward, SA's Roosevelt

STAR 23\7\92

(156)

THE president of the Johannesburg Stock Exchange, Roy Anderson, calls on the Government to stimulate the economy out of concern for thousands of people who have lost their jobs He says we should be able to get the money from the International Monetary Fund, who would be bankers of last resort

The man surely speaks truth. In South Africa today we are going through something more akin to a full depression than a recession Factories are idling or silent Thousands are being retrenched We face the spectre of mass starvation due to the worst drought this century

Much of the blame has to be laid squarely at the door of people who quaintly believe that one can call for political strikes and street marches today and investment capital tomorrow Laying blame, however, does nothing to get us out of the mess. As Mr Anderson says, we need stimulation on a scale that could be funded only by the IMF. But what kind of stimulation do we need?

Does the situation not call for some kind of quantum leap of the imagination?

In a depression-hit America in the 1930s, Roosevelt proclaimed a New Deal Huge labour-intensive projects were funded by government and put bread on the tables of desperate men and women, while an infrastructure for the future was built. Why not here?

One of Roosevelt's more notable schemes was the Tennessee Valley Authority This was an agency which set about building dams, locks and hydro-electric generating stations on the Tennessee River.

The scheme provided vast employment and transformed previously impoverished regions.

Do we have anything corresponding to the Tennessee Valley? We do The Tugela Basin is a vast natural feature in which the Tugela and its tributaries funnel down from northern Natal to the sea Its potential has been exhaustively researched by the Natal Provincial Administration since 1947 It's all on file already

The Basin has a unique topography allowing the construction of a series of large dams which would drive hydro-electric stations producing enough energy for much of the water to be pumped backward after passing through turbines, making dams self-replenishing.

The engineers reckon the Tugela Basin could produce enough electricity and conserve enough water for four or five large modern cities, leaving an outflow at the mouth sufficient to supply water to an agglomeration as large as Greater London

But so far it hasn't happened. Part of the reason is that, from 1948, the Nats did not have much urgency about developing a region where neither the whites not the blacks supported it politically.

But, to be fair, another school of hydrology took hold, quite unconnected with politics This maintains that water resources and development should be concentrated on a core region such as the Witwatersrand. The Nats did make hesitant moves to develop the Basin, as when the second Iscor (now virtually closed down) was located at Newcastle.

Whatever the full reasons, the point is that the Tugela Basin is strategically placed adjacent to the country's most densely populated region which is also home to probably the greatest degree of poverty and human misery The Basin is on the road and rail systems midway between the PWV and the Natal ports and is adjacent to rich coalfields

Nobody expects that the four or five cities would spring up overnight. But a programme of IMF-funded dam and hydro-electric projects would soak up millions in employment, plus stimulate the PWV industrial sector which would be the major supplier.

It would be the kind of project which, one imagines, international finance could support It would also lay the firmest of infrastructural foundations for economic growth in the new South Africa.

Do we have a Roosevelt? He could be unstoppable politically □

Australian official moots aid programme for SA

B/DAY 27/7/92

TREVOR BISSEKER

CANBERRA — World governments, the IMF and World Bank should do something positive to help SA when financial sanctions were finally lifted, a top Australian official said at the weekend

Treasury Secretary Tony Cole, who chaired a committee in 1988 which devised the basis for the British Commonwealth's financial sanctions package, said it was difficult to see SA's political transition going "entirely smoothly"

"The need for capital will be immense," he said "Official flows will be needed for comfort programmes like education, and these should point the way for unofficial finance to be used for development"

Australia still imposes trade and financial sanctions, in line with the Commonwealth's official standpoint taken at the organisation's Harare summit.

Trade and investment will be permitted when there is agreement in SA on transitional arrangements, and financial barriers will go when a democratic constitution is drawn up

"At this stage, the Australian government says 'OK' to notebooks, but not to cheque books," a department of trade official said

Asked about the role Australia could play when financial sanctions were removed, Cole said his country could work through the boards of the IMF and World Bank It could lobby "to get them to do something for SA"

It could also establish a "facility capacity" at its embassy for potential traders

Cole expected Australian companies to be anxious to establish a presence in SA Mining companies would be looking for business and wine companies might also be interested.

It would be natural for Australia and SA to renew their old ties "We would not have felt so strongly about events in SA if it had not been for the kinship," said Cole

The trade department in Canberra receives about 10 calls a day about possible trade with SA. However, the Australia-Southern African Business Council expected 100 people at a recent meeting here, but only 30 turned up.

Radical overhaul of debt accord urged

156

By Sven Lünsche STAR 30/7/92

Standard Bank has urged the Government to terminate the Third Interim Debt Agreement with foreign creditors and replace it with an IMF-backed Structural Adjustment Programme (SAP)

In its latest Economic Review the bank says a SAP is essential to restore confidence in the economy, which it predicts will decline this year by more than it did last year

"Given the current weakness of the economy, a process of restructuring along the lines of an SAP, must start as soon as possible," Standard Bank says, adding that the process should be started before the expiry of the foreign debt agreement in August next year

South Africa would benefit tremendously if it could terminate the agreement and bring about a normalisation of its relationship with foreign financial markets, Standard says

"This could be done through a tacit agreement not to call up debt, or, for example, the conversion of remaining debt into one- and three-year paper, saleable on the secondary-debt market"

The bank warns, however, that such a move can only be undertaken if full access to facilities of the International Monetary Fund (IMF) are restored, so that a fall-back position exists

This requires the acceptance of a suitable economic strategy by the IMF which, in turn, would have to be satisfied that such a strategy had broad local backing

"No such blueprint exists at present. it must be created and must find reasonably wide endorsement."

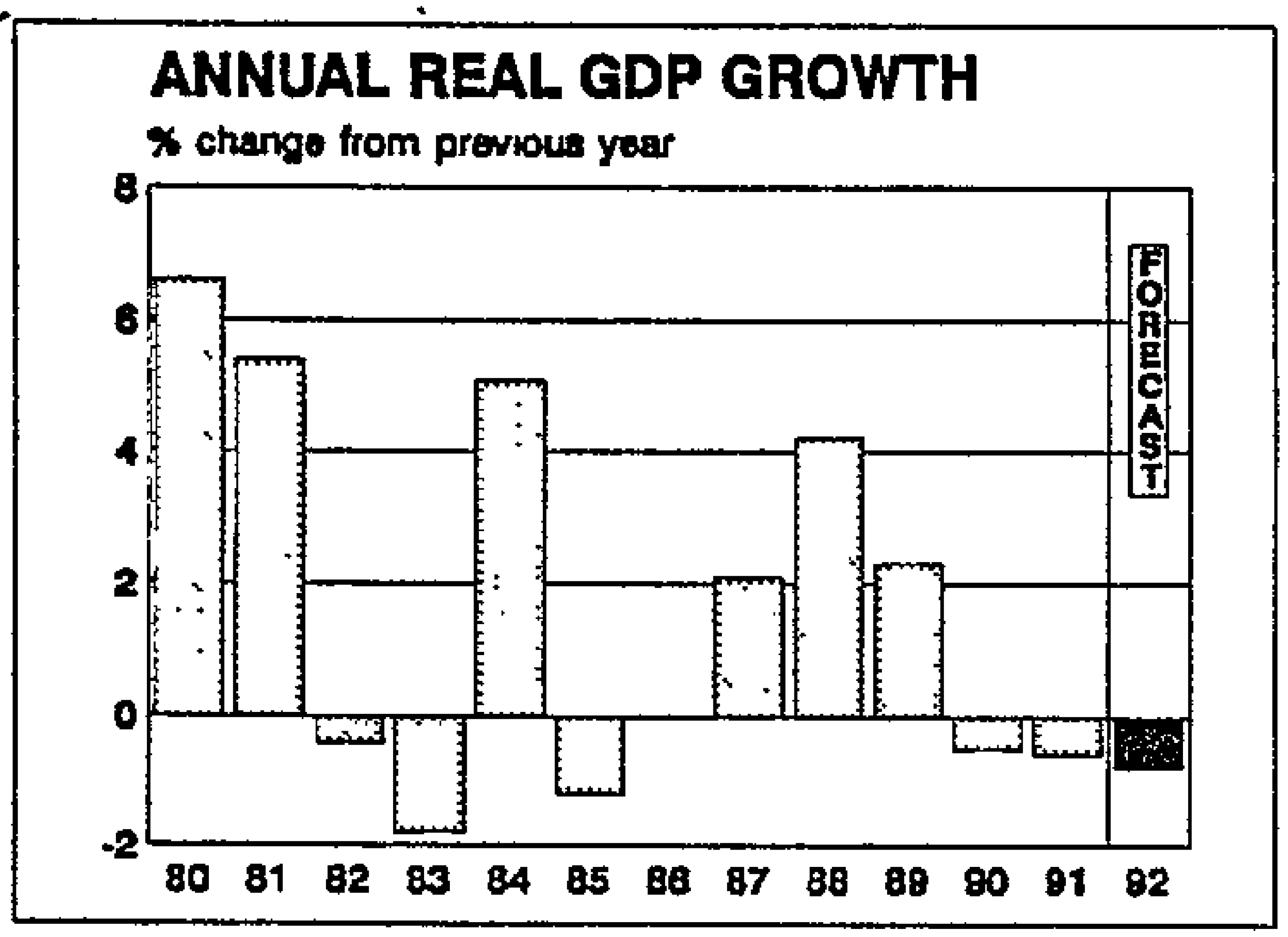
Standard Bank says the business sector has a key role to play as it is well placed to encourage an economic strategy that could gain support across much of the political spectrum

The strategy should aim for rapid, sustainable growth, with an emphasis on both efficiency and equity.

"Conventional wisdom points to deregulation and tax reforms as the relevant policy framework for a competitive economy"

The bank says such a strategy is urgently required because the economy is probably in the deepest recession South Africa has experienced in the post-war period

"The signs point clearly to a third consecutive year of economic decline expected to be around 0,8 percent, and there is no real upturn in prospect before the second quarter of 1993" (see graph)



The bank, however, is slightly more optimistic on the outlook for personal consumption expenditure (PCE)

While the low level of personal savings, reduction in consumer access to credit, slower growth in disposable income and rising retrenchments will continue to take their toll on PCE in the second quarter of the year, Standard predicts a slight upturn in spending during the second half

The most serious manifestation of the recession was the decline in fixed investment to a low of 13,5 percent of gross domestic product (GDP) in the first quarter of the year.

"The recent trend in investment undermines the economy's future ability to generate growth and absorb work-seekers," Standard says.

Underlining its call for a thorough restructuring of the economy, the bank concludes that quick-fix measures, which might hasten a short-lived cyclical upturn, simply will not restore the kind of growth that is necessary

BUSINESS Bush attacks IMF for over-optimism of Japanese recovery

IMF ROW Tough meeting with IMF behind closed doors boosts aggression:

US critical of IMF stance on Japan

Sowetan 31/7/92

(156)

WASHINGTON - The United States has sharply criticised the International Monetary Fund for taking what it believes is an over-optimistic view of Japan's troubled economy, IMF sources said on Wednesday

The criticism came at a closed-door meeting of the Fund's board this month and was described by several sources as unusually tough

"The United States was really aggressive in attacking the Fund staff," said one source, who declined to be identified

The Bush administration has been pressing Tokyo for months to act to prop up its sagging economy in hopes that would promote faster global growth and spur demand for US exports ahead of the US presidential election in November

Japan has repeatedly cut interest rates to aid its ailing economy. But it has so far refrained from adopting the more expansionary budget policy being urged by America, preferring instead to wait to see how its economy unfolds before acting

Monetary sources said the IMF staff basically backed the more cautious Japanese stance

The staff argued that the recent slowdown in Japan's growth was to be expected after the 1980's "bubble" economy, when Japanese land and share prices skyrocketed

"We've seen an unwinding of excess demand and of the asset price bubble," said one source sympathetic to the staff's view "Just because growth for a single year falls below three percent, that is not a major crisis that calls for a massive fiscal intervention"

In May, the IMF forecast Japanese economic growth would slow to 2,2 percent this year from 4,5 percent in 1991

That compares with the Japanese government's official forecast of 3,5 percent growth in the current fiscal year that ends next March 31

The United States argued at the board meeting that the IMF staff was fixated on the need for Japan to fight inflation, and ignored the dangers posed to the country and the world economy by slower Japanese growth, sources said - *Sapa-Reuter*

No pain, no gain for SA

w/Mail 7/8 - 13/8/92 (156)

South Africa faces some deep-rooted problems as it rejoins the world economy. **REG RUMNEY** *spoke to Bradlow Fellow Jesmond Blumenfeld who has been looking at these issues*

JESMOND BLUMENFELD'S conversation about the future policy choices on the South African economy is scattered with mention of painful and "cruel choices" and warnings of no quick and easy way out. It is clear he is not entirely sanguine about the prospects for immediate prosperity

The sixth South African Institute of International Affairs Bradlow Fellow, Blumenfeld has been weighing the opportunities and the threats South Africa faces as it is reintegrated into the world economy

Based at Brunel University in West London, Blumenfeld is preparing a paper on, among other things, the policy implications for South Africa of the lifting of sanctions and the ending of apartheid

Clearly, there has been optimism with trade sanctions going, says Blumenfeld. Some traditional markets had been restricted and others had been severely limited by sanctions. But, he says, apart from financial sanctions, there has also been more fundamentally a decline in attraction for foreign capital investing in the real sector of the South African economy

"Certainly since 1976 and even before a combination of factors has led to declining attraction of foreign capital. This was masked by resorting to borrowing abroad."

Equally important, is the much more structural imbalance in South Africa's relationship with the international economy. Blumenfeld points out the history of industrialisation in South Africa is characterised by subordination to political goals. So when industrialisation did take place in the early years of the Union it was to create jobs for whites

Jesmond Blumenfeld: Tell the marines the new South Africa will not manipulate industrial policy

The seeds of present problems were planted way back then, is the implication. The way industrialisation happened meant it was parasitic, relying on export earnings of other sectors

So exporting minerals financed imports of machinery to produce goods for replacement of imports. "Industrialisation has always been employed by politicians for ends other than industrialisation."

In the apartheid years industrialisation was used to entrench political structures, not for the sake of the economy. Now industrial development is expected to cater for exports and to create jobs. "It's not clear that these are compatible."

Because of the balance of payments (BoP) constraint South Africa needs more foreign exchange earnings. The only sure route in the long term is manufacturing for export. Politically the need is to create jobs. But exports are capital intensive rather than labour intensive.

Another problem is that manufacturing industry needs lower exchange rates to be competitive: mineral exports, on which we still rely, tend to push up the exchange rate, according to Blumenfeld

The problem of South African manufacturing is the high cost of labour relative to capital. He reckons you have to push down the cost of labour relative to capital, or make capital more expensive. Its hard to pursue both strands — foreign exchange earnings and job creation — at the same time. It's a cruel choice to have to make. "You could go the employment creation route but you will run into a BoP constraint." The export promotion route could be undermined by joblessness.

Access to IMF loans will not in itself relieve the constraint. IMF loans will have to be repaid five or 10 years down the line, and they don't come cheap. "I would be worried about placing too much reliance on the IMF

"It would be most unfortunate if South Africa were to find itself in the position of Zambia and Tanzania, chopping and changing policy to get the IMF off its back," Blumenfeld reckons

It can be argued, he says, that South Africa is overborrowed. "But it wouldn't take a lot of borrowing to make it overborrowed," he says

The question remains: how do you make foreign loans earn foreign exchange so that they can be repaid?

The bind is that South Africa won't get direct foreign investment until there is stability and economic growth is needed to attain that stability. There is no easy way out of this.

"There is an important role for the political leadership in creating acceptance of what can be achieved in the foreseeable future."

Growth through redistribution, sometimes advocated by thinkers on the left, has the potential to work in the short term but runs the risk of running into the BoP constraint, says Blumenfeld. "The fundamental structural problem is that industrial development in South Africa is predominantly import intensive, and this will take many years to change."

Brazil, for instance, followed an industrial policy which resulted in much lower import intensity than South Africa. Following the example of the Korean tigers would be possible if South Africa was at a stage of industrialisation reached 20 or 30 years ago.

The idea that the goods consumed by poor people have a lower imported content is foolish, he maintains. Whether big or small, most machinery, intermediate inputs etc which industries use have to be imported

"It can be changed but it's a very slow and painful process. Policies must be implemented which mean some firms go under to make space for others which are more competitive internationally

"This is what structural adjustment is all about. It's better for a country to do it itself. But if the IMF forces it on a country, the government can say it's not their fault. That ploy has been used by governments all over Africa and Latin America." There are problems in aping other countries.

South Africa starts with a mineral rich economy which dictates domestic structure and exchange rate. The country doesn't start off with well-developed government structure, and doesn't have the option of following the repressive employment practices countries like Taiwan and Korea did

The fiscal burden of putting export incentives on a par with those for import substitution would be enormous, Blumenfeld reckons. Reducing import substitution incentives is open to special pleading

While what needs to be done is clear, it is by no means certain a future government will pursue an economically correct industrialisation strategy.

"It seems inconceivable a future government, having observed the way industrialisation has been manipulated in the past, will eschew this as policy lever." He adds scornfully: "Tell that to the marines."

Structural adjustment programme is vital

WM 7/8 - 13/8/92 (156)

By REG RUMNEY

THE idea is gaining ground that South Africa needs some kind of "structural adjustment programme".

Southern chief economist Mike Daly has remarked in Southern's third-quarter *Economic Commentary* that South Africa dare not remain inward-looking.

The July *Standard Bank Economic Review* urged a structural adjustment programme be put in place soon to break out of the stagflation dilemma of low labour absorption in the established economy coupled with persistently high inflation. Restoring confidence in the economy will need a structural adjustment programme, say Standard's economists.

The review also says urgent action on structural adjustment is necessary to regain full access to International Monetary Fund (IMF) facilities and end the debt standstill.

This kind of talk by economists must in part be a reaction to the lack of movement by government, since Finance Minister Derek Keys seems much more sensitive than his predecessor to interest groupings, particularly in the business community.

Because of its association with the IMF, the term "structural adjustment" itself misleads, and this is why some economists have talked of "fundamental change".

Standard's economists write off privatisation, tax reform and tariff reform — all of which appear to have been put off or drastically slowed down during the post-Codesa limbo.

Structural adjustment elsewhere has often focused on privatisation as a means of restricting the size of the state in the economy. In South Africa, contrary to the rhetoric, there isn't that much to be privatised compared to Latin America and Africa.

In other countries the IMF insists on fiscal and monetary discipline. In particular, according to Iraj Abedian, writing in *Economic Growth in South Africa*, the IMF tends to adopt a macro-economic approach, in effect either recommending cutting spending or raising taxes to rearrange the fiscal structure.

Daly says the need for a fundamentally new economic path is gaining currency. The aim is many years of growth of four percent a year or higher, according to Daly, to mop up unemployment. Growth has been too dependent on commodities exports, and this has meant a cycle of boom and bust which has come nowhere near that figure.

On the macro-economic front, both Keys and Reserve Bank governor Chris Stals, notes Daly, have committed themselves to a policy of "stabilisation, liberalisation and stimulation". This pointedly places stimulation via easier monetary policy after a number of economic indicators and ratios have reached the desired levels. The economy is now at the first stage, where a lower consumer price inflation rate, lower money supply growth and the level of gold and foreign exchange reserves relative to imports need to show further improvement.

Daly notes there will be severe obstacles. For a start, many other countries have already followed the new orthodoxy, and South Africa is a relatively late starter. Many East Asian countries have already set demanding price standards in world markets for a range of goods such as textiles and electronics.

The highest hurdle is consensus among government, business and labour. Daly mentions the Economic Forum being co-ordinated by Keys as playing a vital role.

Swiss woo SA in bid for IMF board seat

STIMES (BUSS) 9/8/92 (156)

THE Swiss Government is wooing SA to join a group led by it in the IMF

Discussions have been held with the ANC's Nelson Mandela and the SA Government. The move could give SA a vote on the IMF executive board for the first time since the 1970s

SA could become a member of a Swiss-led group next month when the issue is put to the vote at the IMF annual meeting in Washington.

ANC economics head Trevor Manuel says the national executive committee has yet to decide on whether to join the Swiss group He says there have been talks between Mr Mandela and the Swiss.

Switzerland until last year resisted IMF membership because of its policy of neutrality. But since membership was granted last year Switzerland has caused ructions by insisting that it be allowed to form its own group of countries to get a seat on the executive board.

The US, UK, Germany, France and Japan, which have large voting quotas, have their own seats But countries with lesser quotas form groups so they can claim a seat on the 23-strong board

Largest

Voting quotas are set by the amount which the member nation contributes to the fund. The amount is determined by a country's GDP

The IMF is experiencing its largest increase in members since the 1960s But it has agreed to increase its board by only one to accommodate members from the former Soviet Union.

Switzerland, with 1,8% of the total vote, is not prepared to join one of the existing groups.

SA has had no board representation since being kicked out of the Australia-led group With 1% of the total, SA ranks 22nd in voting power and could be influential in determining the new board membership in Washington

Informed sources say there have been inquiries and discussions between SA and other nations about group membership since President de Klerk put the country on the road to reform

Preliminary discussions with Australia are said to have come to nothing

The sources say the Swiss option has been seriously discussed between the two countries

By KEVIN DAVIE

SA should logically become a member of the English-speaking group of African countries in the IMF This is one of two African groupings which have a board seat, the other being French-speaking

Although African membership would make regional sense, there are drawbacks at this stage to SA's joining the group

It has 20 member countries which share 2,8% of the vote and rotate the board representative on a two-yearly cycle This means that a South African would be on the board once every 42 years

Press reports highlighting the ructions caused by the decision to push for a seat on the board suggest that the Swiss have looked for potential group members in Turkey, Poland and perhaps some former members of the Soviet Union

If Switzerland and SA join up, they would command 2,8% of the vote, enough to oust the 24 Francophone countries which have 1,9%

The potential for a Swiss-led group to do this has given rise to reported charges that Switzerland is intent on upsetting the balance between developed and developing nations in the IMF

An alternative is to create another seat But a Financial Times report says leading powers, such as the US, Japan and Canada, have indicated they would oppose such a move

SA has been blocked from IMF credits since the early 1980s because an American law, the Gramm Amendment, requires that the US board member (the US has 19% — the largest quota) vote against loans unless certain criteria are met

There is, however, no sanction preventing SA from rejoining one of the member groups

Kinds

SA's representative at the IMF, Frans le Roux, declines to comment on a possible alliance with Switzerland

"If SA is considering joining Switzerland or any other group this would be discussed at ministerial level," he says

Elizabeth Guyer, of the financial and economic section of the Swiss Ministry of Foreign Affairs, says the Swiss constituency could be an issue at the IMF meeting

Mrs Guyer says the Swiss are "looking for all kinds of solutions" She confirms that there have been unofficial discussions with SA about membership of a Swiss constituency

The Guardian Weekly
August 14 to 20, 1992

World Bank and IMF help rouble

Guardian W[?] W/Mail

14/8 - 20/8/92

THE Russian government breathed an audible sigh of relief at the weekend, following the announcement that the International Monetary Fund and the World Bank had approved loans worth $1.6 billion to shore up the ailing Russian economy.

"Potentially they are a great contribution to the rouble's stabilisation," said the acting prime minister, Yegor Gaidar. The IMF loan of $1 billion is to be used primarily to build up foreign currency reserves, he said in a television interview, while the World Bank funds will be spent on essential imports.

"This money will make it possible for us to speak more calmly with our creditors. Now at last we are emerging from a situation when our great country had to live without currency reserves."

Russia has been in danger of defaulting on the interest on its foreign debt of about $74 billion, as well as seeking repeated moratoriums on capital repayments.

Until last month's appointment of the former Soviet state bank president, Viktor Gerashchenko, as head of Russia's central bank, precious foreign currency had been lavished on trying to shore up the rouble's collapsing exchange rate. But in a shift of policy, Mr Gerashchenko has allowed the rouble to decline faster against the dollar, saying foreign currency would be better spent on paying the country's debts.

Mr Gaidar told his television interviewer that the IMF and World Bank loans would not be wasted. "I won't allow this while I'm in office," he declared. However, next month President Yeltsin is expected to appoint a permanent prime minister — a post he still formally holds — and it is far from certain that Mr Gaidar, the chief architect of the "shock therapy" of the past seven months, will get the job.

But while still holding office, Mr Gaidar took the opportunity to warn that foreign loans would not solve Russia's deep economic crisis. "We have to understand that any form of credit is only a prop for our domestic policy," he said. "If our internal policy is irresponsible, these props won't help us."

This comment may well have been directed at those among his conservative opponents who have been pressing for more state aid to state firms, and particularly to the military-industrial complex.

At the end of last month Mr Gerashchenko sent a telegram to provincial banks ordering them to cancel debts between state firms and provide them with additional credits.

By John Rettle
in Moscow

Not much left to redistribute

FOR those who imagine the whites can be bled further, think again, says no less an authority than the presumably unbiased IMF, reports DEREK TOMMEY

STAR 15/8/92

High tax rate has already done job

156

LEFT-WING politicians talk about the need to redistribute wealth from whites to blacks in the "new" South Africa However, they need not wait for a new government.

An analysis of figures issued earlier this year by the International Monetary Fund, and appearing in the latest issue of SA Tax Review, shows that wealth redistribution by way of taxation is already taking place on a substantial scale.

The figures show that throughout the 1980s whites as a group paid 32 percent of their income in tax This compares with 24 percent for Asians, 17,7 percent for coloured people and 13 percent for blacks.

The figures also show that whites received back benefits equal to 13,3 percent of their income, which compares with 22,5 percent for Asians, 18,8 percent for coloured people and 16,5 percent for blacks.

Credit

The result is that the net tax burden — the difference between tax payments and benefits — on whites was equal to 23,3 percent of their income. Asians also had a net tax burden — equal to 1,77 percent of their income On the other hand, coloured people had a tax credit equal to 11,1 percent of their income and black people a tax credit equal to 3,4 percent of their income.

Looking at these figures the IMF comments, in an understatement, that overall, the South African tax burden and its marginal tax rates cannot be judged to be low by international standards

It then gathers up its courage and adds that the tax burden on the white community appears to be relatively high, even by industrial countries' standards.

A table of the comparative tax burdens in various countries shows that that borne by white South Africans is at least twice as great as that in other industrial countries.

Compared with the 23,3 percent net tax burden borne by whites, Canadians stand at 11,1 percent, Britons 10,7 percent and Americans 9,8 percent.

These figures show that whites are highly taxed, but they also show something else — that anyone, whatever his race and who has to pay anything more than the minimal rate of income tax, is not getting value for his money

In this situation, the IMF comments, any further raising in tax rates would be likely to raise disincentives to levels that are very high by international standards

It is a welcome development for a racially neutral organisation such as the IMF to be concerned by the disincentive effect of South Africa's high tax rates, because until now claims by whites that they were being overtaxed have tended to be treated by the liberal element in society, in particular, as being completely unfounded — and even if they were overtaxed, whites should be happy to help the less privileged

This all sounds extremely moral But it tends to ignore the fact that the last census showed that South Africa had lost about 300 000 whites in the previous five years

As these people must have gone overseas, these figures suggest that a lot of them were not prepared to make their future in South Africa — possibly because of the political uncertainty and also very possibly because of the high tax rates

Concessions

The IMF suggests that the solution to South Africa's problem could be to improve the efficiency and equity of the tax system, in particular by reducing tax expenditures — that is, tax concessions — especially where they lead to greater investment in plant and machinery instead of in labour It also suggests broadening the tax base and changing the mix between direct and indirect taxes.

Let us hope that it is matters like this that Minister of Finance Derek Keys is working on — and that there could be some slight relief for hard-pressed taxpayers in next year's Budget.

DUE to technical difficulties, Richard Cluver's column, "Footsteps to Fortune", has been held over until next week.

STAR 15/8/92

THIRD World countries have become trapped in an impossible cycle of increased borrowing and rising debt by northern creditors, in "aid" deals brokered by the IMF and the World Bank. This should ring alarm bells for South Africa as it prepares to leap into world money markets with the eager encouragement of these two organisations, writes BEN TUROK.

156

SOUTH Africans are frequently told that they are overcoming their isolation and rejoining the world community Well and good But what kind of world are they re-entering? And what can they expect when they finally do so?

In the 1970s, the then German Chancellor Willy Brandt launched an important report which argued that we lived in an interdependent world and that north and south were closely linked But the nature of this connection was not fully spelt out and remained a matter of controversy Now that the East-West conflict has ebbed away, the focus is on North-South relations, and the picture that emerges is not a happy one

The most salient feature is that the G7 group of industrial countries in the north now have a totally dominant position in the world economic order at the cost of southern subordination Despite protestations about the flow of "aid" and talk about "poverty alleviation", the bare fact is that Third World debtors are paying their northern creditors an average of R80 million more than they receive in lending each year

The reason for this is the preponderant self-interest of the North at the cost of the South In the 1970s, commercial banks, the International Monetary Fund and the World Bank induced southern governments to borrow freely, leading to a rapid build-up of debt Soon the massive scale of this misfortune became evident as interest was added to capital, bringing severe repayment problems

The scale of the debt came to pose a near-fatal threat to the survival of US banks and the international banking system The IMF and World Bank stepped in and took control of the whole debt crisis, to the point where they are now in charge of over half the Third World's official debt

But why should this debt "overhang' have been allowed to occur? Many economists argue this was because Third World governments were induced to borrow to increase their spending on foreign imports — in other words to open up their economies to foreign investment which had previously been closed to them IMF and World Bank advice was central to this, and these institutions continue to advocate debt-building policies

The heart of the present problem is that inward flows are being diverted to servicing obligations to the point where the situation gets totally out of hand In the years 1982-90 total

> *Now that the East-West conflict has ebbed away, the focus is on North-South relations, and the picture that emerges is not a happy one.*

payments of interest and capital by the South were a staggering R3 725 billion During the same period there was a flow of finance from North to South to the tune of R2 567 billion, leaving a net reverse flow to the North of R1 158 billion

Because of the debt build-up from accumulated arrears, the debtor countries as a whole were 61 percent worse off in 1990 than in 1982 Sub-Saharan debt increased by 113 percent during this period and Africa paid back R500 billion between 1983-90, the worst period economically in recent history It is now repaying, in debt-servicing alone, far more than what it originally owed

Most damning is the record of the IMF There has been a net transfer from Africa to the IMF of R12,7 billion between 1983-90, the very time that many African countries were under "structural adjustment programmes", imposed by the IMF, which were supposed to lead to recovery Percy Mistry, a former top manager at the World Bank, says "While the IMF is exerting considerable influence over Africa's economic policies, it has been extracting resources at an unconscionable rate Africa actually pays heavily for the privilege "

Curiously enough, the new funds flowing to the South from multilateral institutions like the IMF have actually been applied to the debt-servicing of private creditors, mainly commercial banks So the IMF now has the role of debt-collecting agency for private capital, since the banks continue to receive interest payments while official creditors allow debtors to postpone repayments

This should ring alarm bells for South Africa's entry into world money markets, and in particular into relations with the IMF and the World Bank These organisations have already sent many teams into South Africa and they have been in contact with many officials, non-government organisations and movements

These contacts are private and no IMF officials will speak to the press Reports have been drawn up, which are not generally available, in which advice on "post-apartheid" economic policies is freely given Most worrying is the clear anxiousness of both these bodies to prescribe a structural adjustment programme for South Africa which must inevitably resemble that imposed on other Third World countries, and now, eastern Europe

Borrowing from the North might have been useful to the South if international conditions had been more favourable The problem arose because, as repayments fell due, so the capacity to repay declined, partly due to increased interest rates, partly because of falling revenues from exports

AFRICA experienced a 30-percent fall in the terms of trade in the last decade due to falling commodity prices in the North In 1986 alone, Africa lost R95 billion from falling export prices, which was more than the aid it received

No wonder that the collective gross national product for Africa fell from R1 000 billion in 1980 to R700 billion in 1990 Per capita incomes have fallen by 2,2 percent annually over the decade, making a total decline of 30 percent There are now 335 million people living in absolute poverty in countries where health and education expenditures have been slashed

Since South Africa remains an exporter of mainly primary commodities, the dangers of getting into debt at a time of instability on world commodity markets are obvious Ought it not to learn the lessons from other Third World countries? Or does South Africa think it is already part of the First World?

> *While the IMF is exerting considerable influence over Africa's economic policies, it has been extracting resources at an unconscionable rate.*

The dangers are particularly severe because of the world recession The recent G7 summit of heads of state in Munich drew attention to the global economic situation, and especially to the unemployment crisis in the North Their communique argued that growth in the North would help other countries too

To this end they favour the signing of an agreement which "must create more open markets for goods and services' Since protectionism remains rampant in the North, they are presumably talking about opening up the South, so one sees that the old polices remain in place

The North will lend to the South to provide finance for imports from the North, thereby creating jobs in Europe and the US These loans, not gifts, will once again incur debt-servicing and so the problems are compounded

THE G7 also argued for increased competition globally, a formula that guarantees that the strong North will easily outclass the underdeveloped south Without undue cynicism, one is bound to conclude that the G7 are now managing the world economic order to serve their own interests without hindrance

The former East Bloc was once an obstacle to G7 domination, and the Non-Alignment Movement was also a forum for Third World resistance These have gone and we are left with the cries of anguish coming from the Third World poor and some subdued complaints from their governments

This is the global system awaiting South Africa Why are some of its leaders in and outside government so careless about the terms on which it gets involved?

● The author is director of the Institute for African Alternatives (IFAA) He recently attended the alternative economic summit in Munich which was sharply critical of the G7 His paper on debt and development is available at R10 from IFAA, 4th Floor, 41 De Korte Street Braamfontein 2001 (Phone 330-6752)

Stals happy with debt obligations

S/Times (Buss) 16/8/92

156

By CIARAN RYAN

CHRIS STALS Gold and foreign-currency reserves satisfactory

THERE is no need to negotiate an early end to the debt standstill, says Reserve Bank Governor Chris Stals.

"The country can comfortably meet its foreign debt obligations because our gold and foreign currency reserves are healthy.

"The affected amount in terms of the third interim arrangement forms a relatively small part of our total foreign debt."

Discretion

Nedbank senior economist, Edward Osborn, estimates that SA must repay a total of $1,2-billion to foreign creditors this year, of which $365-million — 30% — falls under the standstill. This is well covered by gold and foreign-currency reserves of more than R10-billion.

A large part of the debt not affected by the standstill will be rolled over by foreign creditors as it matures. By renegotiation, foreign creditors will have the discretion to roll over the standstill debt too, thereby easing pressure on SA's balance of payments. It would also allow foreign creditors to sell the debt on the secondary market.

After the Government's referendum victory in March approaches were made to foreign creditors to renegotiate the third interim arrangement under which SA must repay 3% of the R6-billion every six months.

Dr Stals says "Our foreign creditors agreed that we should wait until 1993 when the third interim arrangement expires."

Standard Bank says in its economic review that preconditions for normalising SA financial relations with the rest of the world include a return to political negotiations and the presentation of a structural adjustment programme (SAP) which has broad support.

"South Africa would benefit tremendously if it could terminate this agreement and thus end the debt standstill through a normalisation of its relationship with foreign financial markets," says Standard Bank.

The SAP is necessary for the restoration of full International Monetary Fund (IMF) facilities, which would be essential for ending the debt standstill.

Dr Stals says renegotiating the debt standstill may be easier with the SAP in place, but is not essential.

"It depends on the conditions imposed by the IMF. In SA's case, the IMF might not impose the comprehensive conditions they demand of countries with serious balance of payments problems."

SA's total foreign debt is $18-billion, of which $12-billion is not affected by the standstill. The standstill was imposed in 1985 after former President Botha's Rubicon speech.

Pool

Mr Osborn says foreign creditors are happy to roll over non-affected debt because SA borrowers pay a premium for loans from abroad.

"We have been successful in rolling over our non-affected debt in the past and I imagine this will continue to be the case."

Dr Stals says that the phased removal of the financial rand is preferable to abolishing it overnight. SA can only contemplate removing the finrand when political stability is restored and the discount to the commercial rand is maintained at a low level for a reasonable time.

The finrand could be phased out by restricting it to, say, JSE-listed equities. Non-residents could then start using commercial rands for all other types of investment.

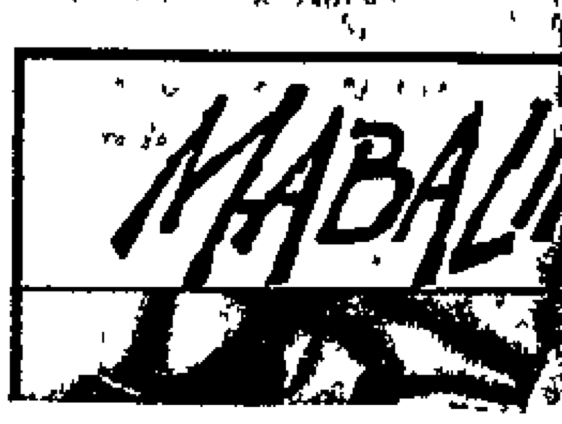
Dr Stals says the Reserve Bank could also intervene in the finrand market to reduce the size of the pool.

"We could use a combination of these two methods. But by phasing it out rather than abolishing it, we can retain some form of protection in case things go wrong and capital starts to leave in a big way."

Dr Stals says the 9,05% growth in M3 money supply in June compared with the fourth quarter of 1991 — although within the 7% to 10% target range — is still too high for a contracting economy.

"But we can live with this rate of growth in money supply. It is not inflationary. Although the nominal inflation rate is over 15%, the underlying one is below it."

A recovery in the economy next year will not exert inflationary pressure on the economy because it will be slow and there is much spare capacity in industry.



Central banks worldwide losing gold habit

156

STAR 3/9/92.

LONDON — Gold reserves held by central banks have this year shown their first significant dip in at least three decades after being remarkably stable since the 1960s, International Monetary Fund figures show.

The IMF's International Financial Statistics show the sale of 202 tons of gold by Belgium and rising sales by Canada, pushed official world stocks to at least a 31-year-low of 35 344 tons in June — after falling below 35 550 tons for the first time in May The IMF records date from 1961

Though the sales are small relative to stocks, the figures highlight market concerns that a trend may be emerging among banks.

Central bank vaults hold the equivalent of 17,5 years of annual world output

In the European Community, bank gold accounts for 35 percent of total reserves

One senior bullion dealer says it is unclear what effect the sales will have on the price of gold

He notes that the market appears to have absorbed the gold — suggesting strong enough demand to support prices — but says that if the sales turn out to be "the nudging open of the central bank flood gates", prices will slide

The International Monetary Fund data reveal a huge one-month, 133-ton drop in gold reserves held by the Bank for International Settlements (BIS) between April and May, which is unprecedented since the 1970s

BIS gold stocks were at a record low of 43 tons in May

The plunge in BIS reserves followed a smaller 27-ton decline in stocks between March and April when the gold price was fixed in London at a six-year-low of $334,75

Gold was fixed in London yesterday at $340,45

BIS holdings subsequently rebounded to 220 tons in June

The BIS activity preceded the June 17 announcement by Belgium it had sold gold worth $2 billion to bring down the proportion of gold in its total reserves to nearly 50 percent Analysts said the two events appeared to be linked.

One explanation for the fall in BIS stocks is that the bank sold gold which was then replaced by Belgian gold, market sources say

This would have allowed Belgium to liquidate some of its gold holdings without causing panic in the market

Policy-makers may bring in outside help

BDAY 7/9/92

GRETA STEYN

(44) (156)

THE IMF, Reserve Bank economists and Finance officials have discussed the feasibility of appointing a top US economist to facilitate economic policymaking in SA.

Sources close to the IMF mission, which left SA at the weekend, said the IMF would be willing to approach an expert from possibly Harvard or MIT to co-ordinate policymaking But the IMF did not see a role for itself as facilitator because of its unpopularity with the ANC and PAC.

Finding an outside expert could be taken up at this month's IMF/World Bank AGMs

Government economists and monetary officials see political neutrality as the key to involving opposition groups They want to find "technical common ground" before next year's Budget and are being hampered in their efforts by the political stalemate Public sector economists are worried that government's long-term economic strategy will be doomed to failure if it is seen as unilateral restructuring

A sense of urgency about the economy has prompted them to look at ways in which opposition groups could be convinced to become involved in policymaking — in spite of the political impasse. They do not see the economic forum as a solution as it will represent the interests of labour and business

The idea of an outside facilitator was taken from the eastern European and Russian experience Harvard professor Jeffrey Sachs played a major role in the Polish and Russian programmes.

The absence of political neutrality in economic policymaking has tied government's hands on VAT. It will be unable to raise the rate in spite of an expected shortfall of billions of rands unless some way is found to depoliticise the issue.

If the stalemate is resolved and an interim government in place before the Budget, policies are expected to be formulated by transitional executive committees

IMF gives Moscow's reforms a pat on the back

BDay 9/9/92. (156)

MOSCOW — The head of the IMF's Moscow mission said yesterday Russian economic reforms were on track so far and indicated that the world body was sympathetic to Moscow's economic woes

"There is an understanding that — at least for the time being — there is no deviation from what was agreed," Jean Foglizzo told a news conference. "At this point there is nothing to prove there was a departure."

He said the IMF might be prepared to soften some of its toughest demands on Russia.

Russia's planned 1992 budget deficit of 10% of GDP might be acceptable to the IMF provided half of it was financed by non-inflationary means, he said.

Earlier targets were for a 5% budget deficit.

Russia's economic reform programme, launched at the start of the year by President Boris Yeltsin's government, has sent prices soaring and industrial output spinning down

Firms have built up huge debts rather than paying for goods they receive and the country has built up big arrears on foreign debts

But critics say the radical reforms are being watered down, under pressure from the captains of state-owned industry and agriculture

They say the policy of Viktor Gerashchenko, new acting head of the Russian Central Bank, plays into the hands of opponents to radical reform Gerashchenko advocates more loans to industry as a way to keep firms afloat

But Foglizzo said differences between central banks and governments were natural all over the world The only difference in Russia was that the arguments were made public

He said Russia's success in bringing inflation down to single figures for each of the last two months was a major achievement.

"I think it is a success to bring monthly inflation to 8% after a 10-fold price increase (since the start of the year)," he said.

But Foglizzo admitted harder times for Russia might lie ahead in the coming months before the next IMF loan for 1993 was granted "It is likely that things could happen that would make the present situation worse," he said — Sapa-Reuter

Helping private sector gives IMF a record year

BDAY 11/9/92. (156)

WASHINGTON — The IMF branch charged with promoting private sector projects in developing countries said yesterday it had a record year in 1992 in spite of new calls on its resources from the former Soviet republics

The International Finance Corporation (IFC), the private sector arm of the IMF, approved 167 projects in 51 countries in the year to the end of June, worth a total of $3,2bn, up from $2,9bn in fiscal 1991

Direct IFC funding for these projects totalled $1,8bn, IFC executive vice-president Sir William Ryrie told a news conference

The organisation also mobilised a record $1,4bn in capital through loans refinanced by commercial banks and underwriting, Ryrie said Half the projects approved were in former communist countries in eastern Europe, ranging from privatisation of small businesses in Russia to joint venture takeovers of former state-owned plants in Czechoslovakia

There were some problems with the former Yugoslavia, torn by war, and Africa because of wars and drought, but the IFC managed to make a profit of $180m on the year, its second highest on record, and a 7,5% return on its net worth

"Given the area in which we operate" and the type of work the IFC does, "this is a very satisfactory rate of return," Ryrie added

The 1992 fiscal year also saw agreement by the IFC's 147 member countries to increase the organisation's capital by $1bn to $2,3bn

But at the same time it faced increasing calls on its resources from former communist countries in Europe and former Soviet republics

Ryrie stressed, however, that increased demand from this quarter would not mean less for traditional areas of IFC assistance, such as developing countries in Asia and Africa, saying the money would just be spent faster than originally planned

He noted that in 1992, 79 of the projects approved, or 47% of the total, with total IFC direct funding of $780m, were in countries with annual per capita income of less than $830

About $441m went to 20 countries in sub-Saharan Africa, nine Asian countries received $813m and five European countries received $465m

Thirteen Latin American countries received $1,25bn and four Middle East countries $254m

Asked about the role the IFC could play in the development of a market economy in Russia and the former Soviet Union, Ryrie said he hoped it could offer a "catalytic" and "trend-setting" influence "that will set a model for the rest of the country"

He cited an IFC project to privatise small businesses in Nizhny Novgorod (formerly Gorky), which had proved so successful the Russian government had asked the IFC to produce a "how to" manual it was now recommending to other cities

The IFC report said that economic conditions remained difficult in sub-Saharan Africa, but there were some encouraging signs, with GDP growth of 2,3% in 1991, up from 0,9% in 1990

But population growth continued to outpace income growth Per capita income dropped 1% — Sapa-AFP

South Africa on the horns of an IMF dilemma

STAR 14/9/92

(156)

By David Canning

SA is caught in a tussle between Third World countries and the industrialised world over its relatively powerful vote at the International Monetary Fund (IMF)

With delegates due to start assembling in Washington next week for the annual IMF meeting from September 22 to 24, a delicate balance between developing countries and the leading industrialised nations threatens to be shaken by a dispute over Switzerland's pending entry

SA officials have been locked in a prolonged internal debate over whether to join one of the two African blocs, or a new Swiss-led voting consortium

Time is running out while SA officials consider the problem — and sources say this could leave it without an official vote for another year.

Switzerland has for decades refused to join the IMF or the World Bank because of its strict policy of neutrality, but in May the Swiss government won a national plebiscite in favour of IMF membership.

Developing countries complain that Switzerland is reneging on a pledge not to claim a ~~seat on the~~ IMF's board to their detriment

The member countries are ranged into voting blocs for the purpose of electing the IMF's directors (there will be 23 this year, with the addition of Russia) The voting strengths are based on their respective quotas

Theoretically, a balance has been maintained between developed and developing countries — although the six largest countries each have a vote to themselves, and the US alone has the power to exercise a veto

There are historical business ties between SA and the Swiss (who used to market SA's gold), and a grouping with the Swiss could give SA a strong voice

The two countries alone could command a seat with their combined 2,7 voting strength, ousting another grouping.

However, a South African decision in favour of joining the Swiss could be coupled with an embarrassing ejection of 24 mostly French-speaking African countries (one of the two African blocs) from the IMF's governing body

The 24 combined have just 1,99 of the vote

On the other hand, a decision to join forces with the Africans — a policy said to be favoured by the ANC — might involve SA actually assuming its seat (on rotation every two years) only once in 48 years.

SA has not exercised its relatively strong vote for many years because of sanctions It previously was in a bloc led by Australia

However, it has been allowed a permanent representative who can speak on SA's behalf in debates.

Establishment of permanent representation has been expensive and cost could be a reason for SA to consider joining a grouping

It is understood the Swiss recently had talks with the ANC

The ANC's Tito Mboweni said last week any resumed voting power for SA would be premature and would have to await at least establishment of an interim government.

Informally, the idea of SA eventually joining an African bloc has merit

Within Africa's English-speaking bloc, South Africa and Nigeria would control almost two of the vote

Director-General of Finance Gerhard Croeser said in Pretoria last week no formal decisions had been made

The question of Switzerland's constituency has still not been settled. Intense negotiations will probably continue up to the voting on September 24

The Swiss have also been talking to other parties — particularly newly independent former Russian states — but Finance Ministry officials deny they are reneging on their pledge not to oust a developing constituency

But the IMF must deal with the inevitable shake-up resulting from the entry of a country with its financial weight, as well as the republics of the former Soviet Union.

STAR 12/1/92

IMF urges more relief for Africa

(156)

By ~~David~~ Canning

WASHINGTON — Representatives of the IMF's Group of 24 have urged the international community to step up flows of capital to drought-hit Sub-Saharan Africa.

They said resource flows to the region needed to be much bigger

Funds at concessionary rates were needed, given the region's widespread poverty and low levels of saving and investment.

Group chairman Alhaji Aqhmadu Abubaker said turmoil in international financial markets was hindering growth in developing countries.

He urged developed nations to address their problems of low output, weak trade and continued large fiscal deficits so that more balanced and stronger international trade could be achieved

(158)

SA caught in monetary fund power tussle

AUG 12/9/92

DAVID CANNING
Business Staff

SOUTH AFRICA is caught in a tussle between Third World countries and the industrialised world regarding its relatively powerful vote of just under 1 at the International Monetary Fund (IMF).

With delegates due to start assembling in Washington next week — for the annual meeting from September 22 to 24 — a delicate balance between developing countries and the leading industrialised nations threatens to be shaken by a dispute over Switzerland's pending entry.

SA officials have been locked in a prolonged internal debate over whether to join one of the two African blocs or a new Swiss-led voting consortium.

Time is running out while SA officials tussle with the problem — and sources say this could leave it without an official vote for another year

Switzerland for decades has refused to join the IMF or the World Bank because of its strict policy of neutrality, but in May the Swiss government won a national plebiscite in favour of IMF membership.

Developing countries complain Switzerland is reneging on a pledge not to claim a seat on the IMF's board to their detriment

The member countries are ranged into voting blocs for the purpose of electing the IMF's 22 (there will be 23 this year, with the addition of Russia) directors The voting strengths are based on their respective quotas

Theoretically, an 8 8 balance has been maintained between developed and developing countries — although the six largest countries each have a vote to themselves and the United States alone has the power to exercise a veto

There are historical business ties between South Africa and the Swiss (who used to market South Africa's gold) and a grouping with the Swiss could give South Africa a strong voice The two countries alone could command a seat with their combined 2,7 voting strength, ousting another grouping

However, a South African decision in favour of joining the Swiss could be coupled with an embarrassing ejection of 24 mostly French-speaking African nations (one of the two African blocs) from the IMF's governing body. The 24 combined have just 1,99 of the vote.

One the other hand, a decision to join forces with the Africans — a policy said to be favoured by the ANC — might involve South Africa actually assuming its seat (on rotation every two years) only once in 48 years

South Africa has not exercised its relatively strong vote for many years, owing to sanctions. It previously was in a bloc led by Australia

However, it has been allowed a permanent representative who can speak on South Africa's behalf in debates Establishment of permanent representation has been expensive and cost could be a reason for South Africa to consider joining a grouping

It is understood the Swiss recently had talks with the ANC and Mr Tito Mboweni said this week any resumed voting power for South Africa would be premature and would have to await at least establishment of an interim government.

Informally, the idea of South Africa eventually joining an African bloc had merit. Within Africa's English-speaking bloc, South Africa and Nigeria would control almost 2 of the vote

The Director-General of Finance Mr Gerhard Croeser said in Pretoria yesterday no formal decisions had been made whether South Africa would seek to regain its vote

The question of Switzerland's constituency still had not been settled.

The Swiss also have been talking to other parties — particularly new independent former Russian states — but Finance Ministry officials deny they are reneging on their pledge not to oust a developing constituency

However, the IMF must deal with the inevitable shake-up resulting from the entry of a country with its financial weight, as well as the republics of the former Soviet Union.

Swiss finance ministry officials have confirmed they had contacts with other countries, including Turkey, Poland and several former Soviet republics, about forming a constituency.

Swiss get IMF seat, still courting SA

156

S/Times (BUSS) 13/9/92

By KEVIN DAVIE

THE Swiss have won their battle to get a seat on the International Monetary Fund board, but are still keen for South Africa to become a member of their constituency once political consensus is achieved.

The stage was set for a battle at the IMF annual meeting this month because recent member Switzerland refused to join an existing group in the IMF It said it would form its own group of countries

This would potentially cause another group of countries to lose its seat on the executive.

The Swiss held discussions with the Government and the ANC to persuade SA to join its group. SA's 1% voting quota at the IMF would have increased the constituency's total from 2,8% to 3,8%, sufficient to ensure that it had enough clout to win a board seat.

SA has not been a group member since being expelled from the Australian-led one in the 1970s

Sources say that the Swiss suggested that aid flows to SA would come from the deal The Government is said to have been keen to join this group, but all parties realised the support of the ANC was necessary

Key ANC members believe that such a move would be premature Some maintain that SA is morally obliged to join one of the African groups in the IMF and not ally itself with a European one.

Open

"This could be an interesting opportunity for SA to come out of its marginalised position at the IMF," says Alexis Lautenberg of the Swiss Foreign Ministry

Mr Lautenberg says the Swiss are keen to expand the new group, which includes Poland and four former members of the Soviet Union, "beyond Europe in the narrow sense"

The Swiss are open on the issue and will take up discussions at any time. He says "we don't need SA now to put it bluntly", a reference to the decision to allow the Swiss a seat through expanding the board to 24 rather than through expelling an existing group member

ANC economist Tito Mboweni says it would be difficult for his organisation to make a decision on this issue now SA should be part of an effort to improve Africa's position

SA is 22nd in voting power at the IMF. Its participation in the Swiss constituency would boost the voting power of the group yet keep the numbers relatively small This allows the member countries to share the four office positions at the World Bank and IMF in rotation

IMF initiative to win over those it is trying to help

3/0m 17/9/92. (156)

SIMON WILLSON in Washington

PERMEATING the IMF's second look at the world economy this year, in its review published today, is its unabashed forceful promotion of the structural adjustment programme

As a cure for many of the acute economic ills plaguing parts of the Third World, the concept of structural adjustment has many grudging proponents in developing countries but few truly devoted supporters IMF president Michel Camdessus is committed to winning it some

There is a marked change of tune in the new review to references to structural adjustments made barely five months ago Back in May, the IMF said somewhat hesitantly " countries with fiscal adjustment have shown some improvement — or a smaller deterioration — compared with countries not undertaking adjustment"

In the October review now published, there is much less holding back "There is encouraging evidence that stabilisation and economic reform efforts are beginning to bear fruit in an increasing number of countries"

This more upbeat assessment of one of the IMF's most controversial functions — that of emergency management of countries with economic problems — is based partly on the need to polish the image of structural adjustment, and partly on genuine signs that it is beginning to work.

The public relations side of an international agency entering a small and impoverished country to run its economy has always been a challenge As long ago as 1988 the IMF brought out a booklet entitled Ten Common Misconceptions About the IMF in an attempt to improve its image The booklet was revised and updated this year, and now guns aggressively for popular shibboleths such as "IMF-supported programmes are anti-growth", "IMF-supported programmes impose austerity on member countries" and "The IMF applies identical remedies, irrespective of a country's circumstances" The IMF's image offensive has moved up a gear in response to bleak reports coming out of structurally adjusting developing countries in recent months

Only three weeks ago, for example, a grim news agency dispatch from Zimbabwe caned the IMF mercilessly, linking the country's 18-month-old economic structural adjustment programme (Esap) to 10 000 job losses in an economy with 75% unemployment in the formal economy An embittered artisan was quoted in the dispatch as saying "Esap is killing us Prices keep on rising because of this Esap I think there is going to be trouble."

If that is the typical perception of the IMF among its target market of entrepreneurs and small businessmen in African developing countries, it is hardly surprising that the fund has sought to raise hard, statistical evidence of the practicality and effectiveness of its programmes

In its latest economic review, the IMF says major reforms of financial markets, institutions and the regulatory framework have been undertaken during the past five years in Argentina, Bolivia, Botswana, Chile, the Dominican Republic, the Gambia, Ghana, India, Indonesia, Kenya, Malawi, Malaysia, Mexico, Pakistan, Thailand and Tunisia. These reforms have aimed to enhance the mobilisation and allocation of domestic savings as well as to improve the monetary control system

The IMF defends, first, its advocacy of positive real interest rates by classifying countries where real interest rates have been strongly negative from 1984 to 1991 Growth in these countries has been low or negative over the period However, moderately positive real interest rates of between zero and 5% have been a feature of the highest proportion of developing countries with annual growth rates above 2% over the same period

Changes in tax policy, expenditure policy and public enterprise policy have, says the IMF, had a significant impact on resource allocation and growth in 13 of the 16 adjusting and restructuring countries classified in the review Here the IMF rides to the defence of a second Esap regular alongside positive real interest rates VAT Seven countries on the list have moved from steeply progressive income and property taxes to simplified, broad-based and more neutral taxes on domestic consumption such as VAT

"The pursuance of simplicity and neutrality in the tax structure has been a result of the recognition that complicated tax systems designed to achieve multiple economic and social objectives tend to generate costly distortions in resource allocation, provide scope for tax evasion that leads to loss of revenue, and increase the administrative burden of their enforcement," the IMF says

Argentina, Chile, Costa Rica and the Dominican Republic, with the objective of maintaining a simple tax structure, introduced VAT at a single uniform rate Brazil, Colombia, Mexico, Morocco and Tunisia had other tax objectives besides revenue-raising such as regional development or redistribution and had chosen a multiple-rate VAT

"By simplifying the tax system enhancing its neutrality and broadening the tax base, these reforms have reduced tax-induced distortions and have fostered productivity and growth as well as, in several cases, increasing tax revenues," the IMF review says

A third IMF Esap strategy to be defended in the new review is trade liberalisation China, Colombia, the Gambia, Ghana Indonesia and Mexico have eliminated quantitative restrictions (quotas) on trade flows Others simultaneously increased their reliance on the price system by replacing quotas with tariffs and by eliminating exemptions to existing tariffs "This has the effect of increasing the transparency of the trade regime with a favourable side-effect of increasing the tax base notes the review

Supporting further liberalisation of trade regulations the IMF stresses what it says is a statistically significant relationship" between the degree of an economy's openness and its growth rate

In Asia, a 10 percentage point increase in the degree of openness is associated with a rise of nearly one percentage point in the growth rate In Middle Eastern and western hemisphere countries, however the openness effect is less than half Asia s, and in Africa the effect is smaller still The IMF thinks this may be due in part to the relatively greater flexibility of the Asian economies which allows resources to flow rapidly into expanding sectors

The fourth main Esap strategy resolutely supported in the new IMF review is that of privatisation The fund, again, does not mince its words "In combination with other policies to create a more competitive environment, the benefits of properly executed privatisation have proved to be considerable,' it says

In the past six years the review notes, Chile and Mexico have privatised a large number of government enterprises, while more recently Argentina Korea, Laos, Niger and Vietnam have privatised telecommunications airlines and transport companies "Improved scope for expansion and diversification following privatisation has contributed to higher labour productivity increased profits and faster growth in many of these countries," the IMF concludes

What this well-researched would-be vindication of the rigours of the average Esap will mean to IMF sceptics such as the grizzled Zimbabwean artisan is open to question. The populations of the Esap-implementing countries presumably want to see benefits in the streets and on the shelves rather than in the IMF s statistical appendices

Irrespective of the partly justified triumphalisism in parts of the IMF s new global economic review it remains the organisation's stiffest task to win over to its cause the very people it is trying to help.

☐ CAMDESSUS

Global economy will continue to recover

B/Day 17/9/92

SIMON WILLSON

WASHINGTON — World growth should continue to recover at a moderate pace over the next 12 months, the IMF says in its latest review of the world economy

In its second look at world economic prospects this year, the IMF revises down the world growth forecasts in its first 1992 review, published in May But the latest review, published today, remains bullish on the outlook for global inflation and world trade flows

The fund said world output was stagnant last year, having edged up only 0,1% But it forecast world growth of 1,1% this year and 3,1% next year In May the IMF's forecasts for world growth this year and next were 1,4% and 3,6%

After falling to 2,3% last year, world trade volume growth is expected to grow to 4,5% this year and to 6,7% in 1993 The major industrial countries' import growth is expected to more than double from last year's 2,4% to more than 5% in 1993

The IMF says the recovery will continue to be slower than this, following the recessions of 1974-75 and 1981-82 The effects of property and equity speculation in some of the major economies are blamed for the slower recovery, along with the effect of some countries' large budget deficits

The US budget deficit is forecast to rise to 6,3% of GDP in fiscal 1992, while the UK's is projected to jump to 5,5% and Italy's to 10,4% The IMF expects Belgium, Finland, Greece and Portugal to have budget deficits above 5% of GDP this year

Growth has remained relatively strong in many developing countries in spite of the weak international environment, the IMF finds It attributes the resilience of some of these developing economies to the "substantial progress" many of them have made in introducing stabilisation measures and economic reforms

The fund says the failure of many countries to implement medium-term strategies for fiscal consolidation and structural reform continues to impede performance

Efforts to stimulate activity by reducing short-term interest rates are counter-productive, the IMF claims, when such efforts errode credibility of the commitment to contain future inflation and, therefore, are reflected in high long-term rates.

"In countries where short-term interest rates have been substantially reduced, additional interest rate reductions would not now appear to be warranted. Moreover, the monetary authorities in these countries will need to remain alert to signals of increasing inflation and to be prepared to undertake prompt upward adjustments to short-term interest rates"

Nevertheless, the IMF projects a further slowing in inflation worldwide over the next 12 months, with average inflation among the world's seven biggest industrial economies falling to 3,2% next year — only narrowly above the 2,9% average posted by them between 1960 and 1969.

Inflation in the world's developing countries is also sharply down, it notes. Average inflation in the Third World halved to about 40% in 1991 and is projected to recede to less than 30% next year

The IMF attributes the sharp fall in world developing-country inflation to macroeconomic stabilisation and fiscal and structural reforms in several countries

(156)

Africa lagging, says IMF

B|DAY 17/9/92

156

SIMON WILLSON

WASHINGTON — The world's developing countries are poised for their strongest growth in more than a decade, but southern and eastern Africa will miss out on the boom, according to the IMF.

In its latest review of the world economy, published today, the fund says developing countries' economies are projected to grow more than 6% on average this year and in 1993 — their best collective performance since the end of the '70s.

"The only regions where the economic outlook has deteriorated are southern and eastern Africa, where a number of countries are suffering from severe drought and civil disturbances," the fund notes.

For other developing countries, the impact of the sluggishness of world demand and the weakness of commodity prices has been mitigated by a mixture of windfalls and hard economic policymaking, the IMF finds. It singles out the favourable effect on debt-servicing costs of the decline in short-term interest rates in the US and Japan, and the series of recent agreements restructuring many Third World countries' foreign debt.

Reconstruction after the Gulf war is cited as a major contributor to economic recovery among Middle Eastern countries.

But beyond these special factors, the fund again attributes much of the economic revival among developing countries to

☐ To Page 2

IMF

B|DAY 17/9/92

156

☐ From Page 1

the adoption of economic structural adjustment programmes. As many as 35 countries — accounting for more than half the total output of the developing world — are classed as "successful adjusters".

The growing trend among developing economies towards wholesale economic structural adjustment is traced back to a core group of Asian countries that started their own economic reform programmes more than a decade ago. During the past three to four years, the fund notes, a growing number of developing countries in all regions have begun to overcome initial adjustment difficulties.

Their experience, the fund suggests, offers important lessons for other countries undertaking adjustment and reform.

"The key to their performance has been determined efforts to reduce fiscal deficits and to control inflation. Equally significant has been their recognition of the importance of market forces: most of these countries have acted to liberalise foreign trade, to cut subsidies and to privatise state enterprises."

For a growing number of developing countries, recent improvements in economic performance have been accompanied by a reversal of capital flight and substantial capital inflows in the form of both direct and portfolio investments.

"The authorities need to recognise that the capital inflows can easily be reversed." The IMF recommends tightening fiscal policy to make room for higher investment and a reduction of the high interest rates that are often a major reason for capital inflows that can lead to overheating.

"Allowing a real appreciation of the currency may be appropriate in some cases."

For the least developed countries, most of which are located in Africa, the IMF review says progress in alleviating the burden of foreign debt has been slow.

"However, further measures are necessary to promote economic reforms and higher growth in the poorest countries, including an early implementation of commitments to raise official, financial and technical development assistance and to improve access for developing country exports in overseas markets," it says.

● See Pages 6 and 8

Ministers to discuss funds

NEW YORK — Against the background of a world economic slowdown, 46 Commonwealth foreign ministers met yesterday to discuss how to keep development funds flowing to poor nations. 156

More than 250 delegates are expected at the two-day British Commonwealth finance ministers' conference, held before next week's IMF and World Bank annual meetings

Commonwealth delegates will discuss better co-operation between its London-based secretariat and the Commonwealth Fund for Technical Co-operation, which promotes development in poorer countries.

World Bank and IMF topics will be discussed, as some Commonwealth nations are worried about getting IMF loans

The Commonwealth Secretariat said in a news release there was concern about difficulties some of the fund's traditional borrowers continued to have in gaining access to resources The secretariat said continued impediments to development included high real interest rates, weak commodity prices and difficulties in debt servicing — Sapa-AP BIDAY 17/9/92.

IMF bullish on growth

(156) CT 17/9/92

Own Correspondent

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After falling to 2,3% last year, world trade volume growth is expected to grow to 4,5% this year and to 6,7% in 1993. The major industrial countries' import growth is expected to more than double from last year's 2,4% to more than 5% in 1993

The IMF says the recovery will continue to be slower than this, following the recessions of 1974-75 and 1981-82 The effects of property and equity speculation in some of the major economies are blamed for the slower recovery, along with the effect of some countries' large budget deficits.

The US budget deficit is forecast to rise to 6,3% of GDP in fiscal 1992, while the UK's is projected to jump to 5,5% and Italy's to 10,4%. The IMF expects Belgium, Finland, Greece and Portugal to have budget deficits above 5% of GDP this year

Third World 'poised for boom'

WASHINGTON. — The world's developing countries are poised for their strongest growth in more than a decade, but southern and eastern Africa will miss out on the boom, according to the IMF.

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"The only regions where the economic outlook has deteriorated are southern and eastern Africa, where countries are suffering from severe drought and civil disturbances," the Fund notes.

The Fund again attributes much of the economic revival among developing countries to the adoption of economic structural adjustment programmes.

SA officials hoping for stronger ties with IMF

BDay 18/9/92 156

SIMON WILLSON in Washington

FEW SIGNS of visible progress in SA's relations with the IMF are likely to be on view during the organisation's annual meeting, which opens in Washington on Tuesday But although SA officials attending the meeting are keen to play down any expectations of a breakthrough, they are quietly confident that, behind the scenes, relations with SA will be placed on a firmer footing

Exactly 10 years after SA's last official IMF drawdown, SA officials firmly discourage speculation either that an IMF standby facility for SA will be announced or that SA will see any of the special drought assistance the IMF is marshalling for southern Africa, or that the Bush administration has yet pushed for World Bank co-ordination of an international effort to provide assistance to SA

Assistance along each of these three lines is thought to be in the pipeline and even into the drafting stage But actual implementation, as with so many other internal and external facets of the SA economy, is seen to be contingent on a political settlement

There are undoubtedly fewer political obstacles to a normalisation of relations now than there were two years ago The Gramm amendment, which required the US representative at the IMF to vote against any SA application for a loan facility unless certain conditions were met, is effectively in abeyance since SA now meets most of the conditions

But IMF rules on balance of payments support are not hard and fast, and bilateral discussions between the fund and the SA authorities are thought likely to prepare the ground for a future standby facility Such discussions, however, are unlikely to take place next week.

SA officials are also keen to dampen expectations which arose earlier this year that SA was in line for substantial drought relief funds from the IMF The fund is anxious to support only those drought-hit southern African countries that have already implemented economic structural adjustment programmes (Esaps)

The fund's reasoning is that it ~~must~~ support countries where Esaps are already in place to give the programmes the best possible chance of ultimate success

Any World Bank involvement in SA, and any support from the US for such involvement, is conditional on the establishment of an interim government But even if such a government took power tomorrow, SA officials here are convinced that most US foreign policymaking concerning Africa is on hold until after the US presidential election in November.

Another factor which suggests a delay in any full and formal restoration of SA's links with the IMF is the relatively long gestation period of any official fund report on the SA economy. A team of IMF economists was in SA last month to carry out the annual economic review performed on each of the organisation's member countries

Although the IMF team passes the host country a preliminary report at the end of its visit, the process of producing the final document has scarcely begun An internal staff report is then compiled, which then becomes the basis for a final report that only emerges up to three months after the team visit No final IMF assessment of the SA economy is likely to be available, therefore, until early next year.

Thus the fund's attitude to SA as the 1992 annual meeting gets under way remains largely passive. A further prerequisite to normalisation of links is agreement on a feasible structural adjustment programme

Any such programme has to have a reasonable chance of lasting its full medium-term course if it is to offer any reassurance to multilateral lending organisations or to any other foreign investor

Both the IMF and World Bank are thought to be eager to dispel any impression that they are charitable institutions which have become a soft touch for basket-case economies Observers believe that both organisations are now deliberately acting as any other financial institution would on being presented with a lending proposal. coldly assessing the risk

If that means, in SA's case, a delay in the credit assessment of the country pending a change in the would-be borrower's personal circumstances, such a delay will be regarded as purely prudential — however urgent the borrower's needs

The last official word on the Gramm amendment was in March this year, when US Assistant Secretary of State for African Affairs Herman Cohen was openly conciliatory at a House of Representatives foreign affairs committee hearing "Should (SA) in the future apply for IMF facilities, the US would no longer be bound to oppose the application as they were two years ago," he said

But SA officials do not view this apparent invitation from the US administration as any kind of green light for an application for a standby facility Even though the political obstruction has evidently been cleared, a procedural blockage remains Strictly, IMF standby facilities for balance of payments support are extended to countries with current account deficits that cannot be financed through private lending channels SA, in its seventh consecutive year of comfortable current account surplus hardly qualifies, therefore, on a technical interpretation of IMF requirements

LETTERS

Dear Sir

IMF boss plays down exchange rate turmoil

SIMON WILLSON (156)

WASHINGTON — IMF MD Michel Camdessus yesterday played down this week's exchange rate turmoil, saying that by proving flexible the European monetary system (EMS) was demonstrating its "remarkable resilience"

He was giving the official IMF reaction to this week's emergency meeting of EC finance ministers, which resulted in the suspension of sterling and the lira from the Exchange rate mechanism (ERM) and the devaluation of the peseta

"It is good that a group of countries is able to react co-operatively to a major market crisis and without resorting to exchange controls," Camdessus said.

"In my experience each crisis has made the EMS stronger" B (Day)

However, he said although the immediate reaction of the European monetary authorities to the problems of the EMS had been correct, measures to restore equilibrium were still required in two principal areas — fiscal policy and labour mobility.

He said there were lessons to be learned from the turmoil in the EMS

"What we are facing here is not only speculative turbulence but also the consequence of fundamental misadjustments. Too much of a burden has been placed on monetary instruments to manage economies, and in many countries in Europe incomplete implementation of medium-term financial strategies has left too many questions unanswered." 18/9/92.

It was not surprising, therefore, that the foreign exchange markets had reacted to the fundamental dis-equilibrium among EMS member states

"Markets want action and not just words," Camdessus said.

On the broader issue of maintaining the impetus towards European union, Camdessus said the fund believed it was a positive trend for European economies to converge sufficiently to establish a single currency and central bank

Such convergence would have benefits not only in the narrow field of monetary policy but in wider issues such as Europe's need to raise its savings capability and restore current account surpluses.

IMF sees world boom pass us by (156)

A COMING world boom will bypass southern and eastern Africa, according to the lastest International Monetary Fund review of the world economy, for what it's worth. Other developing countries' economies are forecast to grow more than six percent on average this year and next, says the IMF WIM 18/9-24/9/92

Currency crisis will dominate IMF meetings

(156)

ARG 19/9/92

From **DAVID CANNING** in Washington

THE European currency crisis will dominate this year's IMF-World Bank meetings as it comes to a head tomorrow when the French go to the polls.

But for South Africa the issues are fairly limited at this stage: Switzerland's success in clubbing together with an Eastern European group of countries to engineer a 24th seat on the IMF's executive board does not exclude South Africa from springing a surprise when the voting takes place next Wednesday Officials acknowledge that South Africa might still join the Swiss group

World Bank and IMF officials said they are keen to see an early draft of Finance Minister Derek Keys's integrated normative economic model The minister is expected to give them broad briefings on his intentions but, an official said, the draft would be ready only around November

There has been speculation South Africa will apply for drought-related aid under the IMF's Compensatory and Contingency Financing Facility (CCFF). The IMF apparently indicated such aid would have to come from its normal funds but there was a suggestion South Africa should ask for concessionary rates.

South African officials described reports of a R3-billion aid package as nonsense However, they are known to have done preparatory work on a CCFF application. The facility exists to help countries experiencing temporary export shortfalls owing to climatic or other unusual conditions

Another issue likely to be discussed is the increase in the government's deficit before borrowing to six percent — a worrying issue from the IMF's general viewpoint.

African economies 'improving under IMF terms'

Bday 22/9/92. (156)

SIMON WILLSON

WASHINGTON — African countries implementing IMF structural adjustment programmes were showing "heartening" improvements in economic performance, IMF officials said yesterday.

Assessing the status of IMF enhanced structural adjustment facilities (Esaf) in sub-Saharan Africa, fund technical officials said positive progress was being made.

Since the establishment of the facilities in March 1986, 27 countries had benefited from IMF-endorsed programmes.

A comparison of average economic performance by beneficiary countries in the three years preceding Esaf adoption with performance during implementation of the programmes had shown improvements in several key areas.

Average annual economic growth had risen from 2% to 3,6%. Savings ratios — the proportion of personal disposable incomes saved had risen from an average 6% to 9%. The fund regards low levels of saving as one of Africa's most critical problems and, notwithstanding the intermittent reliability of some of the national data, officials are taking particular pride in the recovery of average savings ratios — even if from a very low base.

Current account deficits as a proportion of national income of adjusting countries had dipped by one percentage point on average, the IMF data revealed.

This improvement in the adjusting countries' external positions owed much to an average annual growth in imports of only 3% over the three-year adjusting period. When set against average economic growth of 3,6% for the period, the imports growth figure showed a "reassuring" decline in import elasticity (the proportion of additional national income spent on imports), officials said.

The adjusting countries began their adjustment effort with very weak foreign reserve positions, averaging fewer than two months' import cover. During the period of Esaf implementation, average import cover has risen to 2,5 months.

The budget deficits of the adjusting countries as a proportion of GDP have fallen on average by one percentage point during the Esaf period, while the countries' average inflation rate eased by two percentage points.

The only key macroeconomic area not to show a perceptible improvement over the adjustment period was the average debt service ratio (the proportion of export earnings diverted into foreign debt repayments).

This had remained steady at around 60%, the officials said.

But, they added, cold statistics on gross foreign debt exaggerated African countries' net foreign debt burden, for failing to take into account the actual cash payments made after debt relief and rescheduling concessions from creditors.

No one listens to the Third World

BIDPA 22/9/92 156

WASHINGTON — A monetary turmoil of world proportions and a key vote on European unification in France are hitting poor nations on two fronts.

On one hand, the currency debacle that has left the European Monetary System in shreds is undermining developing nations' efforts at overcoming poverty, famine and debt crises.

On the other, Sunday's French vote on European unification took centre stage at the IMF-World Bank annual meeting, muffling the poor nations' calls for attention to their plight

"Turmoil in industrial countries is devaluing our assets," Mohamad Imady of Syria, the first chairman of the Group of 24 developing countries, told a weekend press conference

"It is affecting the terms of trade," he complained.

The plight of the Third World will be further pressed forward at a meeting of the Development Committee, a grouping that brings together 22 poor and rich countries

Their problems are many First and foremost, a drought-related famine is wreaking havoc in East Africa In Somalia alone, two million people could starve to death unless they get urgent international help

The G24 urged Western nations to "provide adequate financial flows to . . improve their prospects for sustainable growth, poverty reduction, environmental protection, and the resolution of the debt crisis."

Officials voiced concern that the fallout from the crisis — weaker currencies and tighter budgets in Europe — would end up in cutbacks in aid for the world's poor

The developing world is also concerned that their needs will be shunted aside in the rush by rich nations to help Russia and the other former members of the Soviet bloc.

The French "yes" to Maastricht might return some calm to the markets and eventually translate into renewed attention to Third World problems But it took place during the IMF-World Bank conference, robbing poor nations of a prime chance to publicise their cause

"This is all we needed," commented a Latin American official referring to the combination of a monetary crisis and a vote in France

"This is the wrong place and the wrong time to come to ask for help," he added

Still, and just in case anyone was hearing, the G24 asked industrial nations for "substantial debt cancellation and provision of adequate new financing to deal effectively with the interrelated problems of growth and debt"

Other problems such as a slow and uneven recovery of world output, the deceleration of global savings and the weak growth of world trade in 1992 are also making a dent on poor nations — Sapa-Reuter

SA features low on IMF agenda

(156)

BIOM 23/9/92

JIM JONES

WASHINGTON — SA's problems figured low on the list of IMF nations when MD Michel Camdessus opened the fund's 47th annual meeting in Washington yesterday.

Camdessus merely alluded to last week's European currency turmoil, but the structural economic problems underlying it were uppermost in his speech

Recent turbulence in markets related only partly to political circumstances, Camdessus said He made it clear the IMF's view was that economic policies, particularly inadequate fiscal policies in several large industrial countries, were largely responsible

He cautioned against early relaxation of anti-inflationary monetary discipline and emphasised that fiscal consolidation or the reduction of budget deficits should take precedence

Camdessus, understandably, did not deviate from IMF economic orthodoxy although he paid lip service to the concerns of countries which asked whether budget balancing and fiscal rectitude were correct given that economic recovery was still so hesitant

He urged prompt action to ensure speedy fiscal consolidation in the US and Germany, while applauding Japan's prudent fiscal policies of several years which had given the authorities the ability to announce their latest economic package

Camdessus's prescription for job creation was brief He specified a need to decentralise wage bargaining so that wages reflected local employment conditions and individual enterprises' performances.

Social concerns, Camdessus urged, should be addressed through the tax and welfare systems rather than through overly rigid wage structures He said he believed the fund's role should be to facilitate effective co-ordination of economic policies

The greatest challenge of our times, Camdessus believed, was the transformation of the formerly centrally planned economies of eastern Europe Helping to integrate them into the global system was part of the fund's task

He made it clear that the IMF would devote more assistance to developing countries which were restructuring their economies along free market lines He noted the paradox that despite the recession, developing countries which had implemented restructuring programmes had enjoyed economic growth rates of 3,25% in 1991 and were expecting growth to average 6% this year

Those that had scored were countries that had emphasised fiscal consolidation, cutting out wasteful expenditure such as that on the military or subsidies He added that the best performances had been achieved by nations that had opened their economies to international trade, implemented firm anti-inflationary monetary policies, liberalised prices and reformed public enterprises

As far as southern and eastern Africa were concerned, Camdessus noted their drought-related difficulties While he called for special assistance for countries suffering from the drought, he said firmly that the fund was prepared only to extend its help as soon as countries were ready to embark on appropriate reforms and sound policies

SA elects to go it alone at IMF and World Bank for next 2 years

ARG 23/9/92 (156)

The Argus Correspondent

WASHINGTON — South Africa is reliably understood to have decided to go it alone at the International Monetary Fund and World Bank for another two years.

With voting on the issue due later today, Switzerland made South Africa a "relatively attractive" offer to join its group in establishing the new 24th seat on the executive boards of the IMF and World Bank.

But after last-minute meetings with Swiss officials here yesterday, South African sources said they had decided to put the issue "back on ice" There was little chance they would reverse this decision before the voting.

With the IMF/World bank precluded from lending to South Africa until there is "internal and external consensus" on the issue, South African representatives remained concerned that joining a group now might have political repercussions.

Moreover, a radical restructuring of the world bodies' governing boards is likely to happen at the 1994 election because the United States has demanded a review of their structure in return for allowing Switzerland in as a 24th group

The number of executive directors — who jointly decide policy — is likely to be trimmed back from 24 to 20 South Africa will then probably be able to negotiate a stronger position.

For the past few years, South Africa — which was once part of the Australian group — has been excluded from any constituency. Instead, it has maintained its own principal permanent representative to the IMF and World Bank, at present Dr Frans le Roux. He is entitled to sit in on relevant debates.

"We will not be badly off in continuing these arrangements," a top official said

Member nations at the IMF and the World Bank are each allocated voting quotas based on the size of their economies They form groups to vote for executive directors who represent those groups.

The new Swiss constituency, which will be established today, represents an increase from 23 to 24 in the number of executive directors.

Keys bemoans IMF and World Bank response to urgent SA needs

BDFM 24/9/92

SIMON BARBER and SIMON WILLSON

WASHINGTON — Finance Minister Derek Keys yesterday expressed disappointment that SA remained a 'non-normal member' of the World Bank and IMF with no access to their financing facilities

"In view of our urgent needs," he told the organisation's annual meeting, "the absence of firmer and more substantive commitments is unfortunate"

SA's relations with the bank and fund remained "constrained and artificial", he said, but expressed the hope that the situation would be different by next year

Making his first speech to the meeting as Finance Minister, Keys nonetheless noted that the bank, which is delaying direct financial assistance until an interim government is in place, was "positioning itself for greater future involvement" by providing 'technical assistance' and undertaking policy and sectoral studies.

Though confronted with social unrest, economic stagnation and the effects of severe drought, SA was playing its own part to align itself with the policies favoured by the bank and fund

Keys warned that the successful restructuring of developing economies such as SA's was dependent on stronger growth among the major industrial economies

He reminded delegates of the developing economies' broad acceptance of and moves towards macro-economic reforms

'Success in such matters often critically depends on the strength and stability of the global economy It is therefore imperative that the industrial countries improve their economic performance," Keys said

While multilateral institutions such as the IMF and the World Bank had stressed the need for corrective action among the developing economies, industrial countries' trade policies were characterised by unjustifiable market distortions, generous subsidies and protectionism.

Even though democratisation and good government were becoming realities in Africa the continent was being increasingly marginalised by the international community, with tragic consequences Real official development assistance had stagnated during the past decade as a result of new demands from other countries

He told the meeting SA was in transition to democracy but was also caught in an environment of social unrest and economic stagnation with the added constraint of the most severe drought in living memory Nonetheless, SA was committed to addressing its current economic imbalances

"We have already gone some distance on the difficult road towards establishing the internal and external financial stability needed to support sustainable economic growth in the long term

"Eventually, this programme should raise the wealth-creating capacity of the economy and also increase our international competitiveness

Keys thanked the bank for publicly praising SA's 'extraordinary transportation efforts' to help its neighbours cope with the drought, but stressed that "further financial assistance needs to be provided by aid institutions"

156

Keys regrets lack of access to international aid

STAR 24/9/92

(156)

By David Canning

WASHINGTON — In view of its current needs, it was unfortunate that South Africa could not obtain "firmer and more substantive" commitments from the International Monetary Fund (IMF) and World Bank, Finance Minister Derek Keys said here yesterday

In his maiden address as an IMF governor, Mr Keys also urged the world's major industrial countries to boost their economic performance and to move away from unjustifiable market distortions, generous subsidies and protectionism

He told the world bodies that, in line with world trends, "economic liberalisation and political democratisation" had progressed in southern Africa.

South Africa was committed to addressing current economic imbalances and to exploring the possibilities of forging "closer regional structures and mechanisms" with its neighbours

While disappointed about the continuing lack of access to full IMF and World Bank facilities, he was grateful that those bodies were becoming increasingly involved in South Africa. This was occurring through technical assistance and through policy and sectoral work.

Mr Keys said he hoped this would be the last time South Africa would have to speak to the world bodies as a "non-normal" member — one without a constituency to represent it on the executive boards

Like many other countries, South Africa was involved in a transition to democracy Unfortunately this was occurring in an environment of social unrest and economic stagnation "with the added constraint of the most severe drought in living memory in the region"

Despite this, South Africa had already gone some distance along a difficult road towards establishing the stability needed to support sustainable economic growth in the longer term

Eventually this programme would raise the wealth-creating capacity of the economy and also increase its international competitiveness

"It will also, hopefully, through the monetary system of the South African-bloc countries, have a spin-off on the economies of other countries in the region."

Mr Keys said the interim committee of the IMF had made special mention of South Africa's "extraordinary transportation efforts" to help its neighbours to obtain vital foodstuffs. South Africa was, in fact, providing additional assistance

However, further financial assistance needed to be provided by aid institutions

Referring to the wider picture from the perspective of a developing country, he welcomed movement towards macro-economic reforms aimed at achieving world economic stability conducive to growth

However, it was imperative that the industrial countries should improve their economic performance

These countries also bore responsibility for ensuring a speedy and positive outcome for the General Agreement on Trade and Tariffs' Uruguay round of multilateral trade negotiations

The sacrifices of world economic structuring policies fell disproportionately on those least able to bear them

Economic gurus left puzzled by currency chaos

BLOOM 25/9/92

WASHINGTON — Economic policymakers wound up a week of tense meetings yesterday with more questions than answers about what ails the world economy and how to manage unruly currency markets.

Two weeks of unrelenting, costly chaos in world currency markets have left officials attending the annual meeting of the IMF and World Bank shaking their heads at the damage.

The European Monetary System was unravelling when officials gathered last week, and few believe conditions will have altered substantially when they bid each other farewell.

Likely to be left unresolved will be the questions of how to boost the world economy, which is experiencing one of its weakest years since the Second World War, and how to manage destructive currency markets

US Treasury Secretary Nicholas Brady voiced financial leaders' growing agitation and helplessness in a speech on Wednesday

"Capital markets have grown dramatically in size and complexity . well beyond the resources governments can bring to bear (to control them)," he said..

Brady also called for coordinated efforts to get the global economy rolling again

The US has been calling on Germany for more than a year to cut interest rates to boost sagging European growth, and it finally made a small adjustment downward early last week. Dealers say further cuts are necessary

If the events of the last week had not been so gruelling they might almost have been comic, as things went from bad to worse despite all-out efforts to get the markets back in line.

The stage was set when the ministers arrived, as speculators last week succeeded in driving both sterling and the Italian lira out of the EMS. 386 156

The French franc and the Spanish peseta were next to come under attack. By late Wednesday, Germany and France had kept the EMS pinned together, as Bonn intervened to support the franc and France raised its chief lending rate to banks to 13% from 10.5%

But a long-term solution to the untamed markets still appeared elusive

Responding to the increasing unruliness of the markets and the growing power of speculators over a currency's fate, Brady called for a new study of how the markets work — the second US proposal in less than a week in response to the currency havoc — Reuter

IMF AND WORLD BANK MEETINGS

FM 25/9/92

Of perseverance and prosperity

156

Nigel Bruce reports on world growth prospects after the sterling crisis

Last week's sterling crisis, inevitable and self-inflicted though it was, quickly paled into perspective against the more pressing concern of stalled world economic growth

Of course, sterling's ignominious withdrawal from the European Monetary System (EMS) was traumatic for PM John Major's Conservative government — and near-ruinous for both the system itself and moves towards economic and political unity

But that is Europe's concern Bankers and economists at this week's International Monetary Fund (IMF) and World Bank annual meetings in Washington see the crisis as a regional issue (though a substantial one) and symptomatic of the greater need to return the world economy to prosperous growth

If anything, international opinion, especially in the US, is sanguine about what happened in Europe Indeed, US fund managers were prominent among those who took heavy positions against sterling's fragile former EMS parity, forcing it eventually to abandon the system

The view in Washington is that Major's mistaken EMS policy imposed too great a cost on one of the world's leading economies, that in the Eighties provided much stimulus to world prosperity With that constraint removed, prospects of world recovery improve accordingly This week's rise in London share prices seems to bear out that view

Camdessus

The problem about Major's decision to abandon UK monetary policy to the austerity of the Bundesbank through the EMS was that Britain's trade balance indicated that the pound was over-valued — though not necessarily on purchasing power parity

But markets were not convinced So to fight off market pressures for a cheaper pound and maintain its EMS parity, Major had to keep interest rates so high that economic recovery was constantly smothered

This was admirable for fighting inflation, but debilitating to those caught in the debt expansion of the Thatcher years Unlike US debt expansion under Reagan, which was largely into non-residential property, UK debt went into residential mortgages as part of the creation of a shareholders' democracy Trouble is, big rises in mortgage costs have negative political consequences and are psychologically depressing

Prominent among Major's detractors are those economists

 FM 25/9/92 (56)

who engineered the Thatcher years of growth Simply, they argue that inflation is low and declining anyway and that abundant experience has shown that defending an exchange rate against sustained market pressures is, ultimately, always impossible

Sir Alan Walters, Tim Congdon and Patrick Minford have all said "I told you so" They are satisfied they have been proven right and Major wrong Circumstances will reduce interest rates and keep inflation low

Indeed, it stands to reason that globalisation of money and capital markets in the Eighties, aided by advances in communication technologies and deregulation, greatly increased the already long odds against defending what markets see as unrealistic currency values Authorities are today often powerless to withstand a sustained market movement, even if it is patently short-term

Volatile values in free exchange markets may impede trade and thus hamper investment and growth Production-driven enterprises tend to that conventional view However, those alive to marketing opportunities don't necessarily agree — and with reason

Many other impediments to trade are more profoundly debilitating IMF MD Michel Camdessus points out, for instance, that "It is a matter of concern that barriers to trade in industrial countries have increased since the start of the Uruguay Round of (Gatt) negotiations"

The greater impediment to world economic growth, however, is clearly the debt overhang from the virtually unbroken prosperity of the Eighties Seldom, if ever, has a growth cycle been so prolonged and the consequent economic indigestion — manifest in high debt — taken so long to subside

Camdessus, in his measured language, refers to the need to "improve the balance between fiscal and monetary policies, thereby facilitating a narrowing of interest rate differentials"

He means that too many governments spent too much and relied too much on tight monetary control to curb the consequent increase in demand and keep prices stable Over-reliance on monetary policy has kept interest rates high in some countries

Lower State spending would ease the need for high interest rates and the pressures of servicing excessive debt — a burden that springs not only from the decade of prosperity and profligate government spending, according to the IMF's latest *World Economic Outlook*, but also is the heritage of high inflation in previous decades

Of course, in the US, short-term interest rates are down to modern-time historic lows But the stimulation this would normally bring to investment and eventually economic recovery has been frustrated by high real long-term rates and excessively depressed consumer and business confidence.

Both have their roots in the limited progress made in reducing the US Budget deficit (6,25% of GDP this year), which is diverting resources away from the private sector, as well as in heavy private-sector borrowing in the Eighties The bad debts of many large US banks and the savings & loan (building societies) fiasco have had a deeply debilitating impact on investor confidence there

Unfortunately, the outlook for greater fiscal restraint in the large industrial economies is not immediately encouraging The US is deep into an election campaign, the German budget deficit is being maintained by higher than expected unification costs and the slump in Britain has pushed up the cost of social expenditure as unemployment and business failures have risen

What have come to be regarded as intolerable debt levels are now universal Federal Reserve chairman Alan Greenspan suggests there is an element of obsession in the balance sheet correction taking place Consequently, real interest rates are almost as high as they have ever been Balance sheet correction will take time, but at least Greenspan believes the US is more than halfway through the process So the adjustment is becoming less painful

'And now over to our economics editor'

The British situation is much less clear There are still those influential in government who believe that in the new freer and more sophisticated money and capital markets, there are technical problems in targeting money supply, despite money targeting having brought stable growth and lower inflation in the five years to 1986

Against that argument is last week's manifest evidence that the alternative — using interest rates to defend an exchange rate parity — is incompatible with free and sophisticated money and capital markets

The British are indicating that a return to the EMS is not imminent Clearly, their problem of last week could easily be repeated if they choose to re-enter at an exchange rate which markets feel is unrealistic They need to allow the invisible hand of the market to prevail and produce a convincing price

Of course, the British don't have to go back at all Though their trade is increasingly with Europe, they virtually have the freedom of trade and exchange they need

Moreover, if the sterling crisis has done anything, it has revealed a substantial concern there and in Europe over surrendering sovereignty The pound was surrendered to the Germans at what has turned out to be a heavy cost to the ordinary Briton

Domestic political constraints against reentry may also be growing, though they may not yet be overwhelming But Major may face a serious revolt in his party unless he takes that sentiment into account

There is no reason why the Bank of England could not be given the constitutional independence of the Bundesbank if Major instinctively distrusts his fellow politicians' desire to defend the pound's purchasing power It has been independent-minded at times and there is no reason to doubt that capability has been lost

Wall Street fund managers fear that if the Brits re-enter the EMS, even the IMF's modest forecast of 1,1% world GDP growth this year and 3,1% next might be suspect The Americans regard the EC proposal to remove all domestic barriers by 1992 as not trade liberalisation but its very antithesis The UK authorities cannot be unaware of or impervious to that attitude

There are, of course, other constraints that have been inadequately addressed in the major European economies, among them the rigidity of labour costs, especially in Britain, and government subsidies, especially in France There are also areas of incipient socialisation in these economies that have not adequately been checked by liberalisation and deregulation

Encouraging, however, is that the concern for debt reduction or balance sheet correction — obsessive or not — suggests that none of the major world economies is likely to try to rekindle demand through further injudicious spending So while worthwhile world recovery will take time to build a head of steam, once it gathers momentum, it should continue to be sustained by stable general price levels

Camdessus made the point in Washington on Monday after the IMF interim committee meeting that adjustment and restructuring in Latin America have shown excellent progress The capital inflow to that region has increased from US$10bn in 1991 to more than $40bn so far this year Moreover, he believes this represents stable fixed capital investment and not a hot-money response to interest rate differentials

He attributes this success not only to the application of appropriate policies, but to perseverance, continuity and credibility If those be virtues, they need to be applied in equal measure to the re-invigoration of the major developed economies — on which SA depends as always for so much economic growth ■

Nigel Bruce is attending the IMF/World Bank annual meetings in Washington

Sout

World's 'terrible twins'

South 26/9 - 30/9/92.

WHY ARE the World Bank and the International Monetary Fund (IMF) so powerful — and so hated in developing countries?

They were formed at a gathering of finance ministers of the Allies after World War II. The ministers met at Bretton Woods in the United States to map out ways in which they could help with the reconstruction of war-battered Europe.

Millions of dollars were pumped into what came to be known as the Bretton Woods Institutions — the International Bank for Reconstruction and Development, later known as the World Bank, and the IMF — which did a very good job

The World Bank helped fund development projects while the IMF acted as a sort of banker of last resort, providing loans on easy credit to help support imports of vital machinery and other goods to rebuild the European countries

But once they had achieved their initial task, they cast their nets wider and soon became, literally, international financial policemen.

Any economy that was in trouble asked them for help — help they only received if they adopted certain economic policies. Because they were desperate, the countries involved often had no choice but to accept those policies.

Unfortunately, such policies did not always work. This was because they were badly implemented, or affected by political decisions, or plain wrong for the country concerned in the first place

But there have been some successes This, added to the fact that traditional aid from the developed to the developing countries has been drying up, has meant that developing countries have come to depend more and more on the Bretton Woods institutions.

SA economy heading for 'everlasting pain'

South 26/9-30/9/92 (156)

South Africa is well on the way to getting a controversial structural adjustment programme for the economy. **Lynda Loxton** looks at what the IMF and World Bank might expect of us:

FINANCE ministers from over the world met in Washington this week to consider the state of the world economy amid sharp reminders that all is not well

Firstly, the value of the pound dropped through the floor as Britain came perilously close to admitting defeat in its fight against recession.

This caused chaos on world money and stock markets, and left the dream of a common European monetary system badly shaken

Secondly, the latest economic review of the International Monetary Fund (IMF) contains a bleak reminder that Africa is increasingly being marginalised and faces a long, difficult struggle to ensure sustained growth.

Finance Minister Mr Derek Keys' warning that South Africa is rapidly heading down the same road, gave South Africa's squabbling leaders such a *skrik* that talks about talks were suddenly on again

To "fix" Africa's economic decline, the IMF and its sister organisation, the World Bank, have spent the last few years persuading African governments to adopt economic structural adjustment programmes (ESAPs). The results have been mixed, but are perhaps best summed up by one grim Zimbabwean witticism — "Everlasting Suffering And Pain"

From the way Keys has been talking lately, it seems South Africa is due for its own ESAP soon — and because of the pain that it will cause, he would prefer that a political settlement is reached by the time such measures are implemented to keep the masses under control

Aware of this, Cosatu and others are condemning the government's "unilateral" restructuring of the economy and are pressing ahead with their plans for economic mass action

This has prompted the government to postpone a decision on whether to take part in any economic forum, which in turn has incensed Cosatu.

Keys will probably return from the IMF meetings in Washington reinvigorated with ESAP fervour and a load of arguments why the programmes are needed — and we had all better *pasop*

Normally, ESAPs are undertaken with financial support from the IMF, which lays down strict conditions for giving this aid Although South Africa is unlikely to qualify for IMF aid until there is a political settlement, it is clear that the government is already taking steps to put economic policies in place that will appeal to the IMF, though not to Cosatu

The four main elements of ESAPs are positive real interest rates, broad-based taxes such as VAT, trade liberalisation and the controversial policy of privatisation

● Positive real interest rates mean that interest rates keep pace with inflation, even if this makes borrowing money expensive This is important because it encourages people to save The more people save, the more money is kept out of the system, which helps to keep inflation down

It also means that banks have more money to lend to businesses wanting to expand and create jobs and produce exports to earn the country more foreign exchange

● Broad-based taxes such as VAT are simpler to administer and should, if working properly, make it easier for the government to gather the revenue it needs for public works and social programmes The introduction of VAT should be followed by lower tax on individuals and companies

● Trade liberalisation aims to promote competitive exports and to open the local market to imports This removes the protection enjoyed by uncompetitive firms, threatening their existence and the jobs they provide But it also means that consumers may then be able to get certain (imported) things more cheaply even though devaluation plays an important role in trade liberalisation

That seems to be a contradiction But the theory is that even though a currency is devalued, lifting tariff and other restrictions to imports means that imports from countries that make things more competitively do work out cheaper

● Privatisation means loss-making state enterprises are forced to become leaner and more efficient and to compete with private firms in an open market This means job losses, but the services provided should also become cheaper if there is competition

It should also go hand in hand with the promotion of small businesses and the informal sector to create jobs for those who lose jobs in former parastatals or uncompetitive firms

These steps might seem "reasonable" and, if coupled with good government, could mean a healthy economy The problem is that they involve, as Zimbabwe has learned, pain of one kind or another

Ordinary people do not like economic pain for some vague, long-term benefit Their needs and wants are immediate

Unless the reasons for the pain are made clear to them, and they agree that it is necessary, they are not likely to accept that they have to endure that pain

No wonder Keys poured a bucket of cold water over the squabbling leaders — there is work ahead for all South Africans

SA throws keys away

(156)

S/Times (B455) 27/9/92.

By KEVIN DAVIE: Washington

SOUTH AFRICA lost out this week on possibly a once-off opportunity to maximise its position in the world's most powerful financial institution, the International Monetary Fund

"It was like throwing away the keys to the bank vault," says one observer

At stake were the alternate director positions in the new Swiss-led constituency at the IMF and World Bank The Swiss now hold the executive director positions on both boards SA stood to get the two alternate positions permanently.

Poland

The Swiss constituency, which includes Poland and former Soviet republics Azerbaidjan, Tadjikistan, Usbekistan and Kirghizia, has only a few members But including SA, it would be about 14th in voting power

The inability of the Government and the ANC to reach consensus led the Swiss to give the two alternate director positions to Poland, the second-largest country in the constituency in voting power

Although the issue had not been settled, it was believed that SA stood to get these two positions because its voting quota at the IMF exceeds that of Poland Discussions between the Swiss and SA began some months ago and continued this week as Wednesday's voting deadline approached

The Swiss had in the meantime promised the alternate director positions to the Poles This meant that even if SA had joined the Swiss constituency, it would have been without the positions of the two alternate directors

SA is unable to vote at the IMF because it does not belong to a constituency It has a permanent representative at the IMF Joining the Swiss constituency would have meant the loss of this permanent representative

SA can still join a constituency — the Swiss have indicated that they are keen for it to happen But SA is unlikely to get the alternate director positions permanently.

Finance Minister Derek Keys says "Our interests will be adequately represented until there is an interim government."

He says the discussions with the Swiss were conducted intermittently for about two or three months

Reserve Bank Governor Chris Stals says SA had the potential to negotiate a good position, but the failure to do so was part of the frustrations it faces He says the Swiss constituency was not the only possibility

Dr Stals says a daunting question is whether SA should be part of one of the African groups in the IMF

Delays

The ANC's Trevor Manuel says the issue should ideally stand over SA's 1% voting quota is "fairly tradeable"

Mr Manuel says the ANC was not responsible for the failure to join a constituency this week "There were delays from their side There was awareness of the issue for nine months"

Mr Manuel blames the delayed political process "We all expected that an interim government would already be in place"

A boost for the islands

By CHERILYN IRETON

S/Times (B455)

THE deal that put Sol Kerzner back in charge of Sun International has spilled over into the group's Indian Ocean island operations which are to be consolidated and expanded 27/9/92

Hotels in the Comoros and Mauritius will now fall under the banner of World Leisure Holidays, Mr Kerzner's tour wholesaler It previously specialised in holiday packages to the Le Galawa Beach Hotel in the Comoros

The enlarged World Leisure Holidays now includes the three Sun Resorts Mauritius hotels of Le Saint Geran, Le Touessrok and La Pirogue It has set a turnover target of R60-million

Although the deal is essentially an in-house restructuring, it gives World Leisure Holidays a new partner, Island Blythe (Mauritius) This group was a shareholder in Sun Resorts Mauritius

It has extensive interests in tour operations for the inbound traveller to Mauritius, Seychelles and the Comoros It owns the Avis car-hire franchise on the three islands and serves about 100 000 tourists a year

Bruce Hutchison, managing director of World Leisure Holidays, says the group now has an integrated travel operation which will enable marketing funds to be focused It will stimulate expansion, particularly in the Seychelles

Of the expected turnover of R60-million, about R6-million will go to retail agents in commission, R11,2-million to airlines and R37,5-million into the island economies

IMF unhappy with SA fiscal, budget policy

(156) STAR 28/9/92.

By David Canning

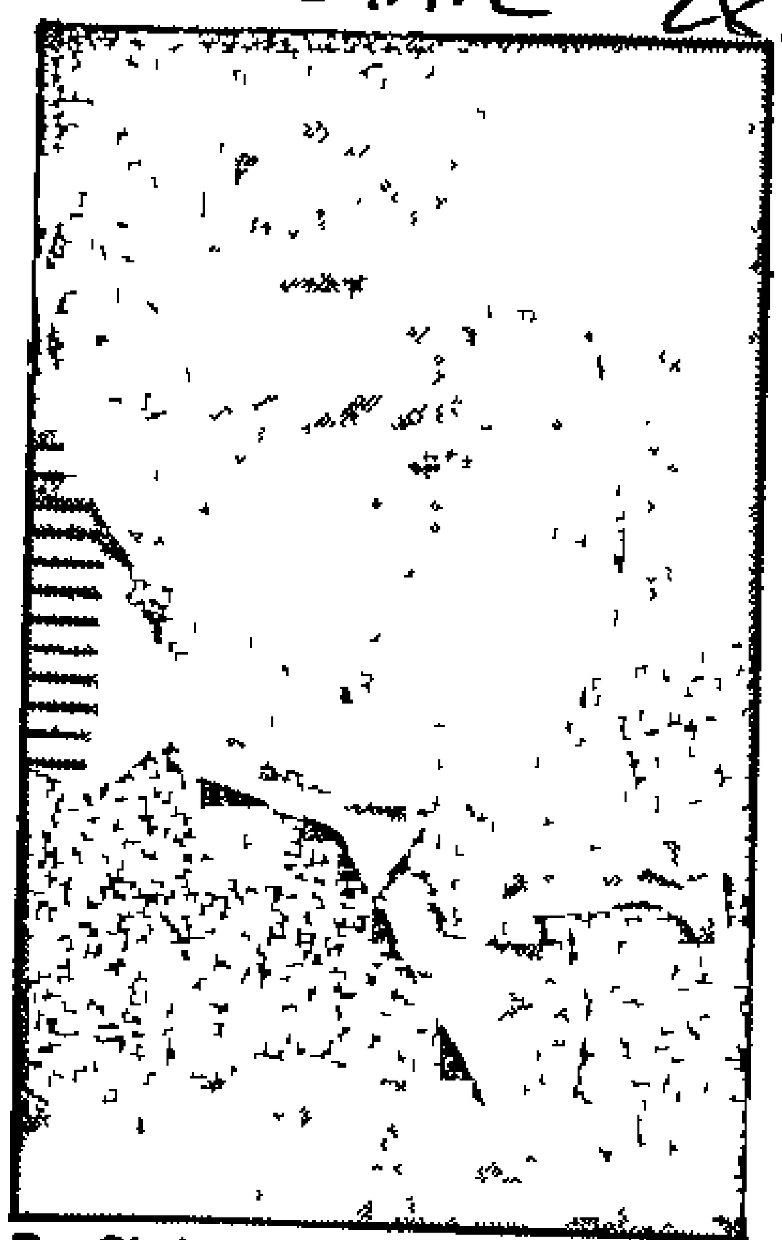
WASHINGTON — While the IMF and World Bank have little problem with South Africa's current monetary policy, they are not as satisfied with trends in Budget and fiscal policy, says Reserve Bank governor Dr Chris Stals.

Interviewed on Friday in Washington where the world bodies have been holding their annual meetings, Dr Stals said the Budget deficit — a possible six percent this year — had been discussed

"We explained that hopefully this is temporary and that the Minister (of Finance) is very determined to do something about it in his next Budget."

Dr Stals said prospects were not bad for some marginal declines in South African interest rates as the rate of inflation eased over the next few months.

"However, the prospects for achieving real low levels for interest rates will depend on getting down to low levels of inflation"



Dr Chris Stals . . . apply the necessary restraint

Underlying inflationary pressures had declined substantially and this was a "wonderful opportunity to get inflation down as the economy is still in recession, money supply is under control and we have stable exchange rates"

He appealed to people "who make prices and set salaries" to apply the necessary restraint.

Dr Stals said chances were that world inflation rates would increase in coming months, making it easier for South Africa — with a falling inflation rate — to close the gap with its trading partners.

"In the UK, the new policies probably will produce higher inflation.

"In the US, much will depend on the outcome of the election A Clinton government could follow a more inflationary policy

"This is not good for the world, but could make our targets a little easier — to bring our rates more in line with those in the rest of the world."

World inflation had remained a fundamental problem for the International Monetary Fund this year, he said

He had detected no change in the investment climate as it applied to SA. "There is not much investment taking place. But then, South Africans are not making investments themselves"

The pressures on European foreign exchange markets over the past two weeks had very little overspill implication for SA

"Our policy of maintaining a relatively stable average weighted value for the rand against a basket of currencies meant we had to adjust our rates against individual currencies

"But this has remained relatively stable There has been little effect on foreign exchange reserves'

Europe would probably delay the process of economic integration, thereby affecting the programme for monetary unification

"We most probably will now see a different course followed Some countries will follow fairly rigid exchange rates among themselves The other countries will, for time being, have a more flexible approach

"At this stage the idea of a single monetary system has been postponed," he said

IMF praises Greece's austerity programme

ATHENS — IMF executive director Michel Camdessus last week praised the Conservative government's economic austerity measures, expressing hope that the policy would continue.

"I have complimented the prime minister for the remarkable economic transformation of your country in the past two years," Camdessus said after meeting Prime Minister Constantine Mitsotakis.

After years of generous socialist spending the Conservatives came to power in 1990 and reduced state borrowing and inflation, and privatised the economy.

Inflation, at an annual rate of 15,3% in September, was still the highest in the EC, with the EC's average annual inflation rate in August at 4,1%.

The spending cuts, a public sector wage freeze and increases in indirect taxation and in the prices of services and goods have proved widely unpopular.

But Mitsotakis is holding firm, hoping to bring inflation under 10% in 1993. BIDAY - 12/10/92

"It was very satisfying to tell the prime minister that what has been done during the last two years really went in the right direction," Camdessus said.

"And indeed, when you compliment somebody for having done something well, you cannot but suggest that they continue and do even more. Particularly as Greece now has accepted the challenge of the European monetary union," he said.

Greece has ratified the EC's Maastrich treaty on economic and political union, but is the only member that did not join the EC's exchange rate mechanism.

Central bank governor Efthymios Christodoulou told Camdessus that Greece could join next year.

"I believe that if this budgetary policy continues to be backed by an uncomplacent monetary policy, supported by the development of the strategies in the structural and privatisation fields, this will help Greece achieve its Maastricht objectives," he said. — AP-DJ.

IMF team in Zambia to review economy

B/D/H/I 22/10/92

LUSAKA — A five-member IMF team was in Zambia to review the structural adjustment programme, IMF representative John Willis confirmed yesterday.

The IMF team is led by the division head dealing with Zambia, Burke Dilton

Zambian Deputy Finance Minister Derrick Chitala said there had been several IMF missions to Zambia to monitor various aspects of the economy

Willis confirmed that the team would be examining the effects of the drought on the Zambian economy

(156)

Economic pundits in Lusaka claimed the IMF and the World Bank had not been happy with the recent wage increases in the public service, claiming these had had adverse effects on the control of money supply and on inflation.

Excess money supply and inflation have been cited as the main culprits in Zambia's economic retrogression. — Sapa.

Loan for Zimbabwe

HARARE — The IMF has approved a Z$2,3bn loan to support Zimbabwe's economic reform programme until 1995, Ziana news agency reports.

The IMF executive board said yesterday Z$625m was available for the first year of the reform programme.

BD 30/10/92

156

Clinton 'may delay SA's World Bank, IMF links'

CT 5/11/92

156

JOHANNESBURG — The SA Chamber of Business (Sacob) said incoming US president Bill Clinton could reduce SA's chances of any early return to full membership of the International Monetary Fund and World Bank.

Sacob said the Democratic Party was likely to take a tough stance on the need for political progress by delaying further normalisation of relations between the two countries

"The election of governor Clinton could also reduce the chances of an early return to full membership of the IMF and World Bank by SA, depending on his political assessment of developments in South Africa," it said in a statement

Sacob said the remaining US sanctions at state and city level could take longer to be phased out, and the US could insist on their replacement by stringent investment codes for US businesses investing in South Africa

"In terms of South Africa's re-entry into the US market over the longer term, progress mmay well be hindered if a Democratic administration should espouse higher levels of protection," it said — Reuter

IMF wants faster interest rate cuts

(156) B/DAY 9/11/92

WASHINGTON — The IMF is urging the German Bundesbank to "accelerate" interest rate cuts, although it acknowledges that measures would have to be "timed carefully" to maintain the central bank's credibility

The IMF recommends in a confidential report that the Bundesbank should avoid waiting for a decline in its broad-money M3 target before easing rates further

It also recommended that the German central bank take a slightly more expansive view of its target in 1993 to encourage growth at home and throughout Europe

Germany's M3 has been well beyond ranges fixed by the Bundesbank, which analysts have pointed to as a factor curbing the central bank's enthusiasm for easing short-term interest rates more aggressively

M3, which is cash in circulation, sight deposits, time deposit accounts under four years and most savings accounts, has expanded at an annualised 9,1% during the first nine months of this year Bundesbank officials have acknowledged that the full-year target range of 3,5% to 5,5% will not be met

While the report does not offer a specific target, it suggests that caution be exercised It notes that the lower limit for M3 should be set "at a fairly low level", while the upper range should not be expanded substantially.

German inflation has also been beyond initial Bundesbank targets with preliminary October figures placing inflation at 3,8%

However, the IMF also recommended that the Bundesbank take an easier view on its inflation target, noting that eastern Germany was still undergoing adjustments and "some allowance might be made for such unavoidable price increases in the inflation goal on which the monetary target was based" in 1992

The German central bank's policy-making council is expected to set 1993 monetary targets at its final meeting of 1992, scheduled for December 10

German monetary policymakers have been deliberating for some time about the utility of M3 as a target and the December meeting will be watched closely for any significant changes in policy

But sources said while the IMF may be more cautious in how aggressively it suggests the Bundesbank accelerate interest rate cuts, many of the monetary assumptions in the IMF report are still seen as valid

The IMF report, the result of the fund's annual review of the German economy, does not break any substantial fresh ground on issues related to the European monetary system, or disarray in September within Europe's exchange rate mechanism

Meanwhile, a member of the Bundesbank's policy-making central bank council, Johann Wilhelm Gaddum, said on Friday that economic problems were not being caused by a lack of liquidity or high interest rates.

In a speech to bankers, Gaddum also warned against any doubt about the Bundesbank's stability-oriented monetary policy and against an "accommodating" monetary policy

He noted the credit institutes were reporting "relatively strong credit demand" — AP-DJ.

STAR 11/12/92

IMF, World Bank charged with going too far

TOKYO — International organisations such as the IMF and World Bank were exacting a stiff toll from poor nations in their attempts to spur economic growth, a high-ranking union official told a trade union symposium yesterday.

Tan San Lim, director of economic and social policy for the International Confederation of Free Trade Unions-Asian and Pacific Organisation, said policies advocated by the World Bank and IMF sometimes required developing countries to undertake programmes which exacerbated poverty. (156)

Although aid organisations laid down many conditions for granting loans, Lim said pressure to privatise state-run organisations was particularly worrying since it threatened huge job losses, worse working conditions and an erosion of trade union power bases

"Privatisation is indeed of great concern, especially to workers and trade unions," Lim said.

Economists

"What these neo-liberal economists in the IMF/WB have forgotten is that market failure still exists in a perfectly competitive world"

He said state-run companies often undertook worthy long-term projects that the private sector tended to avoid

He questioned the assumption that public firms were usually inefficient and unprofitable.

Conditions

Quoting the World Labour Report, Lim said 300 000 workers in the Pacific Rim moved each year in search of wealthier nations in which to work. Of that number, half moved illegally

Lim deplored the conditions under which some of these workers lived and said countries with labour shortages should assist migrant workers in finding jobs — Sapa-Reuter.

IMF set to cut back its 1993 growth forecasts

LITTLE ROCK — The IMF was set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan faded, international monetary sources said on Monday (156)

The sources said currency turmoil and high interest rates were holding back growth in Europe, while Japan's economy was hobbled by declining corporate investment and growing bad debts at Japanese banks

The only bright spot in the world economic outlook was the US, where the long-awaited expansion finally seemed to be taking hold

The new IMF forecast was expected to be discussed by the IMF board later this month

In September the IMF predicted growth in the industrial world would rise to 2,9% in 1993 from 1,7% this year. Since then the outlook had turned more gloomy

The Organisation for Economic Cooperation and Development (OECD), last month lowered its forecast for growth in the industrial world next year from 3% to 2,1%. The IMF's forecasts are usually in line with those of the OECD.

The IMF normally only makes a full-scale forecast of the world economy twice a year to coincide with its semi-annual meetings

But it has decided to update its forecast now to take account of the currency turmoil in Europe that took hold as its last outlook was released in September

The Fund then forecast economic growth in the EC would pick up to 2,3% next year. Sources said growth in the EC next year now looked more likely to be only about 1% to 1,5%.

The picture is not much brighter in Japan The IMF predicted in September the Japanese economy would expand by 3,8% next year, but growth of around 2,5% — in line with the latest OECD forecast — now seems more likely.

Only in the US is growth likely to be close to 3% in 1993 — Sapa-Reuter

BUSINESS

IMF now gloomier on world growth prospects

STAR 9/12/92

156

WASHINGTON — The International Monetary Fund is set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan fade, international monetary sources say

The sources say that currency turmoil and high interest rates are holding back growth in Europe, while Japan's economy is hobbled by declining corporate investment and growing bad debts at Japanese banks

The only bright spot in the world economic outlook is the United States, where the long-awaited expansion finally seems to be taking hold

The new IMF forecast, which is still being worked on by fund economists, is expected to be discussed by the international organisation's board later this month

Monetary sources say they expect the IMF to try to avoid being overly pessimistic about the outlook out of fear that might further undermine global confidence

In September the IMF predicted growth in the industrial world would rise to 2,9 percent in 1993 from 1,7 percent this year

Since then the outlook has turned more gloomy, as speculative attacks by currency speculators have left the European Monetary System in shreds and Japan's economy has turned in its weakest performance in more than three years

The Organisation for Economic Cooperation and Development (OECD), the Paris-based think-tank for rich countries, last month lowered its forecast for growth in the industrial world next year from three percent to 2,1 percent The IMF's forecasts are usually about in line with those of the OECD

The IMF normally makes a full-scale forecast of the world econony only twice a year, in April and September, to coincide with its semi-annual meetings

But it has decided to update its forecast at this time to take account of the currency turmoil in Europe that began to take hold just as its last outlook was released in September

At that time the fund forecast economic growth in the European Community would pick up to 2,3 percent next year

Monetary sources say growth in the EC next year now looks more likely to be only about one to 1,5 percent

That is what the 12-nation EC itself expects and compares with growth this year of as low as 1,1 percent

Europe's economy is being dragged down by continuing high interest rates in Germany which has fallen into recession

The Bundesbank, Germany's independent central bank, is keeping rates high to combat inflation brought on by a huge increase in the budget deficit to pay for the cost of the unification of east and west Germany

The picture is not much brighter in Japan The IMF predicted in September the Japanese economy would expand by 3,8 percent next year, but growth of around 2,5 percent — in line with the latest OECD forecast — now seems more likely.

Japan's gross national product shrank by 0,4 percent in the third quarter, the first decline in that measure of economy since the second quarter of 1989

Only in the United States is there much grounds for optimism Growth there looks likely to be close to three percent in 1993 – Sapa-Reuter

ARGUS 17/12/92 (156)

IMF against SA tax hikes

Business Staff

JOHANNESBURG — The International Monetary Fund (IMF) has severely criticised the South African government's fiscal policy and has called on it to refrain from raising tax rates in the forthcoming Budget

In the IMF's report on its annual "Article IV consultation", which assesses South Africa's economic performance, the fund also slates South Africa's trade and industrial policy

The IMF says that in the medium-term, South Africa would have to find the right balance between policies directed at social improvement and those directed at promoting economic growth

In order to achieve sustainable growth the IMF lays down certain economic "baseline" targets for the period 1993 to 2000 and assumes a yearly population growth rate of 2,5 percent

These targets include average economic growth of 3,2 percent, employment growth of three percent, real wage increases of 0,5 percent a year and an average 23 percent ratio of fixed investment to gross domestic product (GDP)

Budgetary policies would be of crucial importance in the pursuit of these objectives and therefore the fund expresses "serious concern" about recent budgetary developments

In particular the deficit before borrowing, which the IMF expects to rise to seven percent of GDP for the 1992-92 fiscal year, would place considerable pressure on future budgets given the interest costs of financing this deficit

On the budget deficit itself the IMF says that the main focus of efforts to reduce the deficit "must lie in the area of pruning public expenditure".

"In this respect curbing public sector employment and pay increases would constitute an obvious line of attack"

The fund says that while even public spending on social programmes may need to be scaled back it comments that social backlogs should be met by moving rapidly towards equality of social spending between different race groups

"At the same time consideration might be given to financing an increased volume of such services by increasing charges for those services provided to middle- and upper-income households," the IMF recommends

It warns strongly against raising personal tax rates, however, as from an international perspective "tax rates in South Africa are relatively high".

Turning to trade and industrial policy the IMF calls for a more outward looking trade policy, which would allow the economy to develop more along the lines of "its comparitive advantage" and expose the "concentrated" domestic industrial structures to foreign competition

As this would hold clear benefits for the South African consumer the IMF supports proposals that the import surcharge should be eliminated, import licences and formula duties be converted to transparent tariff equivalents and the general level of tariffs be reduced over a number of years

On monetary policy the IMF supports the Reserve Bank's strict anti-inflationary measures but blames "unresponsive union wage demands" for the continued stubborness of high price increases

Its assessment of South Africa's economic performance this year and in 1993 is very much in line with previous forecasts by the Reserve Bank — a two percent decline in GDP this year and a slight 1,5 percent improvement in 1993

‘Find political consensus soon, or face bleak future’

Grim IMF warning to SA

STAR 17/12/92 (156)

By Sven Lunsche

The International Monetary Fund (IMF) has warned that South Africa will face a bleak economic future unless political consensus on economic restructuring is achieved soon

In a gloomy analysis of the economy, the IMF says that almost 50 percent of black workers are either unemployed or working in the informal sector

Its findings and recommendations are contained in the fund's report on its annual "Article IV consultation", which assesses SA's economic performance

The IMF and its sister organisation, the World Bank, have been playing a pivotal role in supplying technical and financial support to African countries on the brink of economic collapse

Their role in South Africa, which is a member of both organisations, has increased considerably over the past two years and they have advised organisations ranging from Government to unions and political parties

The report repeatedly emphasises the need for political consensus on the future direction of economic policy

The IMF says that the basic economic challenge in framing a medium-term programme "will be to find the right balance between policies directed at social improvement and those directed at promoting economic growth".

Crucial

Budgetary policies would be of crucial importance in the pursuit of these objectives and therefore the Fund expresses "serious concern" about recent budgetary developments, particularly the widening gap between tax revenues and soaring government spending

The main focus of efforts to reduce this deficit "must lie in the area of pruning public expenditure (and) in this respect curbing public sector employment and pay increases would constitute an obvious line of attack"

At the same time, consideration should be given to financing more social services to the poor by increasing charges for those services provided to middle- and upper-income groups

The IMF warns, however, against raising personal taxes

Turning to monetary policy the IMF supports the Reserve Bank's stance of keeping interest rates at high levels as this would bring down inflation

However, it blames the "stubbornness" of the high level of inflation on the "unresponsive" union wage demands.

The Fund expects the South African economy to decline by 2 percent this year and to show a modest improvement of 1,5 percent in 1993.

The IMF report urges South Africa to strive for average yearly growth of 3,2 percent for the period 1993 to the end of the decade.

● Report – Page 23

'Policy exacerbates deficit'

Govt's 'costly' aid to industry slated by IMF

BIDAY 17/12/92. (156)

GRETA STEYN

THE IMF has slated government support for huge capital projects such as Alusaf and Columbus, saying the policy was wrong for a country with massive unemployment and a major Budget deficit problem

The criticism was voiced in the IMF's staff report drawn up after its annual mission to the country earlier this year The report was released formally today

The IMF said the incentives in terms of Section 37E of the Income Tax Act "not only seriously compromise the public finances, but they also distort the allocation of resources, not least by encouraging capital-intensive investment"

The policy was inappropriate for a country with an abundance of labour and a scarcity of capital The report estimated unemployment among blacks at 48% of the economically active population

On their visit to SA in September, IMF staff had questioned the economic viability of projects requiring a high degree of state assistance "In the light of these considerations, the staff suggested that a review of this investment strategy might be indicated," the report said

The 37E tax incentives would also hamper efforts to reduce the Budget deficit. The projects would entail a substantial cost to the Budget over the next few years in the form of lost revenues. The budgetary cost of the scheme would arise from the fact that depreciation allowances could be transferred to other companies or could be used against profits not related to the project. This could mean that tax expenditures would take place for up to three years before any tax revenues would flow from the projects.

The IMF expressed serious concern over the fiscal situation and called for measures in the Budget next year to reverse the worsening trend.

As tax rates in SA were already high from an international perspective, the main thrust of a programme to slash the deficit would have to be on the expenditure side Social backlogs should not be addressed by increasing overall spending, but rather by financing services by increasing charges for those services provided to middle- and upper-income households.

The report said the persistence of inflation would undermine efforts to promote sustainable economic growth An important factor underlying the stubbornness of inflation was unrealistic union wage demands

Centralisation of wage bargaining had blunted the link between productivity and wage increases. The IMF suggested that an income policy agreement could provide a solution to these problems It added that deregulation of markets and removal of barriers to entry in trade and industry were also needed

Describing SA industry as "cosseted and concentrated", the IMF asked for trade liberalisation that would expose SA companies to foreign competition

SA should not wait for the conclusion of the present GATT round to adopt a more outward-looking trade policy Changes to trade policy should not be made unduly subject to approval by those industrial groups which had vested interests in the present trade regime

IMF against any tax rises

STAR 17/12/92

By Sven Lünsche (156)

The International Monetary Fund (IMF) has severely criticised the South African government's fiscal policy and has called on it to refrain from raising tax rates in the forthcoming Budget.

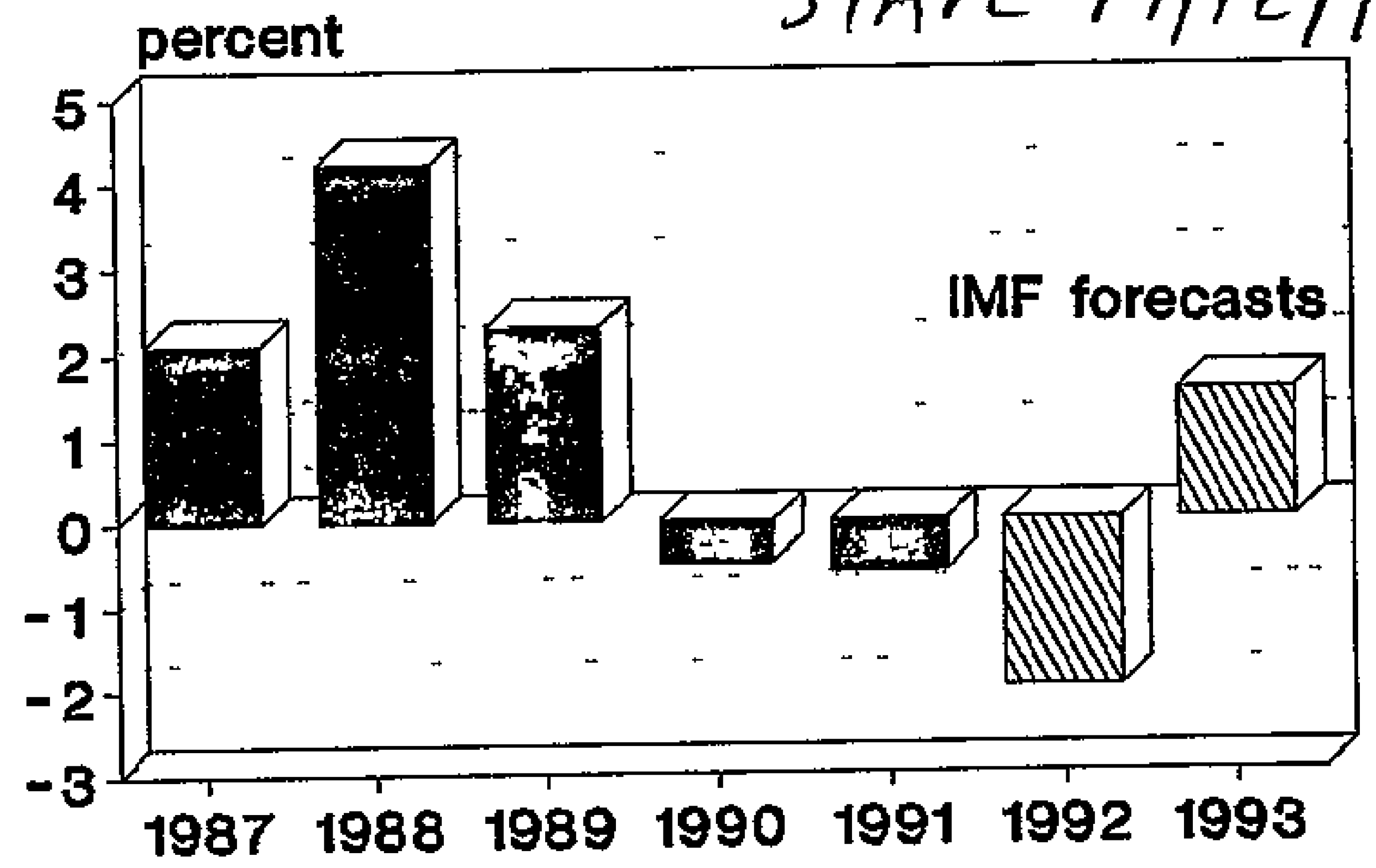
In the IMF's report on its annual "Article IV consultation", which assesses SA's economic performance, the Fund also slates SA's trade and industrial policy

The IMF says that in the medium-term, SA would have to find the right balance between policies directed at social improvement and those directed at promoting economic growth

In order to achieve sustainable growth the IMF lays down certain economic "baseline" targets for the period 1993 to 2000 and assumes a yearly population growth rate of 2,5 percent.

These targets include average economic growth of 3,2 percent, employment growth of three percent, real wage increases of 0,5 percent per year and an average 23 percent ratio of fixed investment to gross domestic product (GDP)

Budgetary policies would be of crucial importance in the pursuit of these objectives and therefore the Fund expresses "serious concern" about recent budgetary developments



SA's economic growth rate (percentage change in GDP).

In particular the deficit before borrowing, which the IMF expects to rise to seven percent of GDP for the 1992/2 fiscal year, would place considerable pressure on future budgets given the interest costs of financing this deficit.

"Moreover, the task of bringing down the budget deficit will be further complicated by the tax concessions on large scale investment projects under Section 37 (e), drought relief assistance programmes, export subsidies and pension equalisation between different social groups"

The IMF is also concerned about the growing amount of SA-government guaranteed borrowings by the "independent" and "self-governing" states which it argues should be brought back under the budgetary control of the central government.

On the budget deficit itself the IMF says that the main focus of efforts to reduce the deficit "must lie in the area of pruning public expenditure"

"In this respect curbing public sector employment and pay increases would constitute an obvious line of attack."

The Fund says that while even public spending on social programmes may need to be scaled back it comments that social backlogs should be met by moving rapidly towards equality of social spending between different race groups

"At the same time considera tion might be given to financing an increased volume of such services by increasing charges for those services provided to middle- and upper-income households," the IMF recommends.

It warns strongly against raising personal tax rates however as from an international perspective "tax rates in SA are relatively high"

Industrial policy

Turning to trade and industrial policy the IMF calls for a more outward looking trade policy, which would allow the economy to develop more along the lines of "its comparitive advantage" and expose the "concentrated" domestic industrial structures to foreign competition

As this would hold clear benefits for the SA consumer the IMF supports proposals that the import surcharge should be eliminated, import licences and formula duties be converted to transparent tariff equivalents and the general level of tariffs be reduced over a number of years

"At the same time, the present system of selective export subsidies should be phased out at an early date"

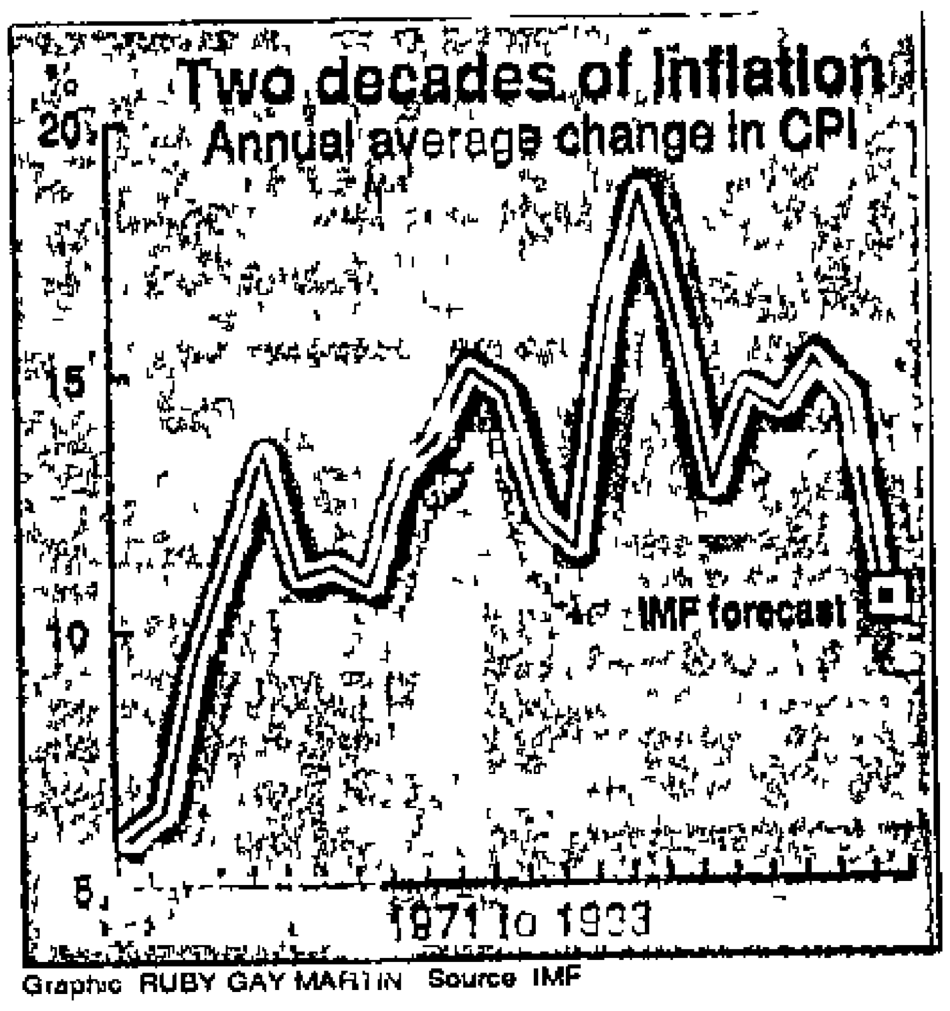
The Fund adds that a new approach to trade policy need not await the conclusion of the present Gatt round and should not be made subject to approval "by those industrial groups whose vested interest was in the preservation of the present trade regime"

On monetary policy the IMF supports the Reserve Bank strict anti-inflationary measures but blames "unresponsive union wage demands" for the continued stubborness of high price increases

"These considerations would argue in favour of supplementing the traditional instruments of demand management policy with some form of incomes policy agreement that still left room for productivity bargaining at plant level," the Fund recommends

Its assessment of SA's economic performance this year and in 1993 is very much in line with previous forecasts by the Reserve Bank — a two percent decline in GDP this year and a slight 1,5 percent improvement in 1993 (see graph)

However, the IMF is somewhat more optimistic than the bank on the probable fall in inflation and on the likely strength of the current account that would result from the present weakening in the economy.



Graphic RUBY GAY MARTIN Source IMF

IMF says inflation to average 10,5%

GRETA STEYN (156)

THE IMF projected an average inflation rate of 10,5% for SA next year in its report on the SA economy, noting it was "somewhat more optimistic" on that score than the Reserve Bank B/DAY

According to the report, the Bank's projections are for an average inflation rate of 11% The Bank does not usually release its forecasts, and the figures became available for the first time when the IMF report on SA was released this week

Economists said the projections were possible only assuming no big increase in the VAT rate Every one percentage point increase in the VAT rate would add 0,6 percentage points to the inflation rate, taking the IMF's conservative estimate further out of reach An increase in the fuel levy would provide further upward pressure on the rate 18/12/92.

The IMF cited unrealistic trade union wage demands as an important reason for the stubbornness of the inflation rate in spite of a long period of tight monetary policy It recommended that an informal income policy agreement be used as part of the strategy against inflation Another inflationary factor noted in the report was lack of competition, with the IMF calling for deregulation and opening up of SA's markets to foreign competition

The IMF projected GDP growth of 1,5% for next year after a decline of 2% this year Economists' growth estimates for next year vary between 0,5% and 2%, but they have increasingly been scaling down their projections

On the outlook for the medium term, the

☐ To Page 2

IMF B/DAY 18/12/92 (156)

☐ From Page 1

IMF said a major domestic savings effort was needed to attain even moderate average growth of 3,2% a year for 1993-2000

A more determined savings and investment effort was needed than the IMF envisaged in 1991, stemming from the "significantly worse conditions from which one would now be starting"

Even if these targets could be attained, the black "underemployment rate" would still be 43,6% at the end of 2000, compared with the present estimate of 48%

The rate of gross domestic investment would need to rise from its present level of around 17% of GDP to an average 23% over the medium term or to about 27% by the end of the projection period

IMF strictures dismissed as a storm in a teacup

STAR 18/12/92. (156)

By Derek Tommey

Tax consultants say the IMF's attack on Section 37E of the Income Tax Act is a storm in a teacup

Section 37E allows new capital projects aimed at adding a minimum amount of value to exports to accelerate the write-off of certain expenses

The section also provides something new, which is for these write-offs to be sold in the form of negotiable tax credit certificates.

The question of the value of Section 37E was raised at the press conference last month to announce the go-ahead by Anglo American of the R1 billion Namakwaland Sands project

Anglo chairman Julian Ogilvie Thompson said Section 37E was not a tax concession

The IMF yesterday was scathing in its reference to Section 37E

It said the incentives provided "not only seriously compromise public finances, but also distort the allocation of resources, not least by encouraging capital-intensive investment"

It said the policy was inappropriate for a country with an abundance of labour and a scarcity of capital

Adding fuel to the fire were snide remarks by certain overseas economists that Derek Keys, now Minister of Finance and formerly chairman of Gencor, in introducing Section 37E had granted unfair favours to his old company

Gencor is a prime mover in Alusaf and, with Anglo American, in the Columbus stainless steel project

A tax expert said yesterday in Johannesburg that the accelerated write-offs allowed by Section 37E were nothing new; many countries offered similar incentives when they wanted to stimulate growth

Gold mines

In fact, SA gold mines have for years been allowed accelerated write-offs

Where Section 37E differs from previous incentives is that it allows the monetary value of the tax allowances to be realised currently, even if the investor concerned has no initial tax base

The Receiver of Revenue issues a negotiable tax credit representing the income-tax value of the disallowed expenditure to the investor

This certificate can be sold to any other taxpayer and used in payment of income tax

IMF criticism of this procedure rests on the fact that it results in a loss of revenue for the Treasury which, under usual circumstances, would not have happened until the investment started making profits

But the tax expert said that if the investors had a tax base, which would be the position if the new investment were simply a division of an existing and profitable enterprise, the Treasury would lose in any event

It is just that the huge scale of the Columbus and Alusaf projects militates against their becoming part of an existing organisation

As for the loss of revenue, businessmen said yesterday that Section 37E only applied to approved projects begun before September 12

Moreover, the increased activity which the projects generated in the engineering and construction industry should produce some compensating tax revenue

The IMF's complaint that Section 37E would encourage capital-intensive investment was also criticised SA had a surplus of cheap electricity and it would would be against its best interests not to use it, especially with thriving aluminium and stainless steel industries in prospect

Businessmen, however, supported the IMF's criticism of excessive government spending and the urgent need to reduce it

They felt more could have been made of the serious effects another tax increase would have on exports and economic recovery

IMF report says growth targets must be revised

S/Times (Buss) 20/12/92 (156)

By ZILLA EFRAT

SOUTH AFRICA's real GDP per capita has fallen more than 10% below the level prevailing in the early 80s, the International Monetary Fund reports. The deepening of the recession this year is the main culprit.

The IMF has revised its medium-term scenario from last year's because of a significant deterioration in the economy

An IMF staff report says attaining former target levels for employment and improved living standards will now take longer or will require a more determined savings and investment effort than envisaged before

Target

The proportion of the black labour force outside the formal sector of the economy has risen to around 48% Joblessness among the least advantaged sectors of the community has reached a disturbingly high level

With population growth predicted at 2,5%, the IMF believes a minimum target for economic policy would be a 3,25% average growth rate over the medium-term.

A major investment effort is needed to achieve this growth

Gross domestic investment (GDI) will have to rise to an average 23% of GDP over the medium-term

The IMF says this GDI has fallen to around 17% of GDP and is now below the replacement level of the capital stock

Personal savings are unlikely to increase at a time of income redistribution to the least advantaged As a result, there would have to be a major reduction in public sector dissavings over the medium-term

Meanwhile, the business mood appears to have ended 1992 on a more hopeful, albeit nervous, note

Sacob's monthly Business Confidence Index (BCI) rose a significant 2,9% in November

Positive influences on the index include lower consumer inflation, a slight drop in the registered unemployed, a sharp increase in passenger car sales and a large rise in the real value of building plans passed

A Sacob survey of the manufacturing sector also found that industrialists are more optimistic about prospects, both in the short-term and in the coming year

The improved confidence, however, does not seem to have affected order books and economists believe the end of the downturn is not yet in sight

Packaging companies, considered to be the first to benefit from an economic turnaround, have not picked up any signs of an improvement in sales Both Consol and Holdains say demand remains poor

Holdains chief executive officer Richard Bruyns says "Volumes are static at low levels, but they do not appear to be going downhill any more" He adds that Christmas sales are slightly down on last year

Decline

This trend is confirmed by a recent Afrikaanse Handelsinstituut survey, which found that most sectors of the economy appear to be experiencing a real decline in Christmas season sales

AHI chief economist Nick Barnardt says chain stores seem to be keeping their real turnover at about the same levels as those in 1991 — a year when Christmas sales were particularly poor

Retailers, however, have had to cut their profit margins drastically in order to prevent turnover falling in tight trading conditions

Mr Barnardt says "Apparently, the end of the downswing in the South African business cycle is not yet in sight"

His view is shared by Sanlam chief economist Johan Louw, who says immediate prospects are still not promising

There have been some favourable economic developments, such as the firming of the Balance of Payments, the lower inflation rate and lower interest rates These, however, are not enough to get the economy going

Mr Louw believes that before this could happen, the country will have to see political progress, a drastic reduction in violence and a meaningful improvement in confidence, both in SA and from abroad

For a higher growth rate in the longer-term, the economy's structural limitations will have to be addressed, he says

These include low fixed investment, insufficient competition, exchange control, low productivity and excessive government spending

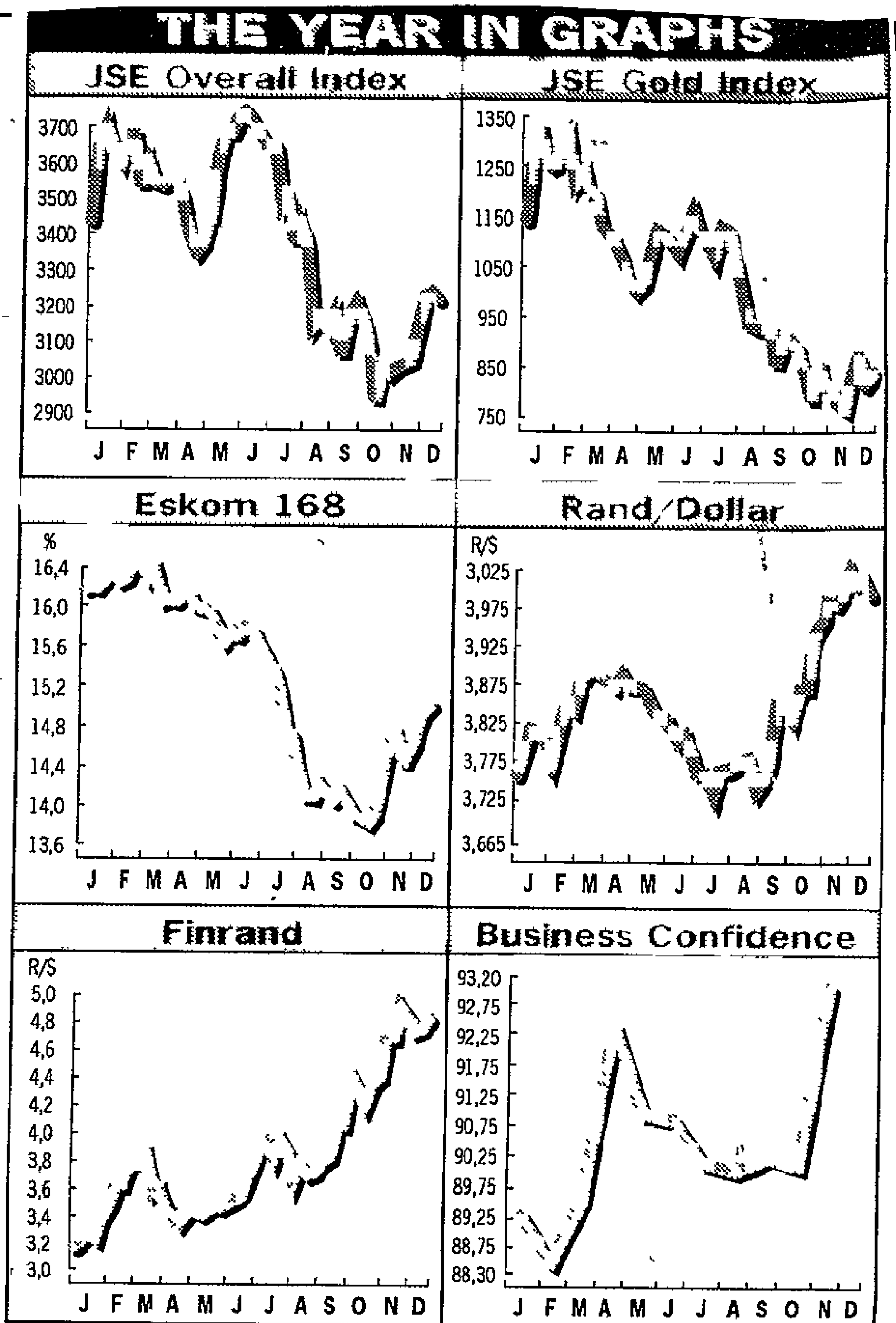
Subdued

Mr Louw says these problems will not go away

"Everyone with the country's interests at heart will have to work hard and consistently to achieve results"

The IMF's staff believe that the recovery of real GDP in 1993 will be more subdued than the Reserve Bank's forecast of 2%

Sanlam anticipates a 2% drop in the real economic growth rate for 1992 This should improve somewhat in 1993, but Mr Louw does not foresee a growth rate of much more than 0,5%



Graphic RUBY-GAY MARTIN Source INET

Forecast of slower world output next year

S10AM 23/12/92

WASHINGTON — Worldwide economic output, already hurt by slowdowns in Japan and Germany, will grow even more slowly in 1993, said the IMF yesterday

In a special report, the fund predicted a rise of only 2,3% next year, instead of the 3,1% it foresaw in October and the 3,5% foretold last May

Rapid growth was expected to continue in Asia, but elsewhere, even where it predicted growth, the fund lowered its estimates

This year worldwide production grew by an anemic 0,8%, the IMF said, lower even than the 1% it predicted in October and the 1,4% it mentioned in May. (156)

The fund released its special "World Economic Outlook" yesterday due to "an unexpected weakening of activity in many key economies and a period of considerable turmoil in foreign exchange markets"

The report is usually issued only in May and October — Sapa-AP

Aid without conditions 'can be expected' for SA

BDAY 28/12/92

LLOYD COUTTS

(156)

SA COULD expect assistance from international aid and development agencies without any conditions in terms of broad economic policy, according to a UCT economist.

Writing in the HSRC publication Prospects, A M van der Heever said fears that organisations like the IMF would impose restrictive conditions by linking foreign currency loans to macroeconomic measures to restore domestic economic distortions, were largely unfounded.

"Both the external and internal macroeconomic balances of the economy are in good condition, that is, the exchange rate is stable and appropriate, and the inflation rate is far from being out of control.

"Despite a fairly high degree of deficit spending on the part of government, expenditure is not out of control and to date has been financed appropriately."

With access to IMF bridging finance SA could again experience net capital account inflows up to 1,6% to 1,7% of GDP, which would allow extended growth phases without requiring surpluses on the current account of the balance of payments.

Many of SA's socioeconomic concerns could be financed without having to make use of scarce domestic resources. Such financing would be extensive once the process of transition had been finalised

"However, it should remain the primary responsibility of SA to identify projects rather than rely exclusively on the expertise of donor organisations."

Expertise available locally far exceeded that of many other countries receiving aid from the World Bank, he said

"The mismanagement of World Bank aid in other developing countries need not occur here If it does occur, an opportunity for spreading wealth in SA without distorting either the capital markets or the tax system will have been wasted."

He warned that poor identification of development projects would waste donated funding and create recurrent financial problems.

"On the other hand, if these facilities are utilised within the context of broad macroeconomic plans rather than treated as one-off windfall gains, they could greatly enhance the necessary transition to becoming a manufacturing producer and exporter," he said percent of purchases and other season was disappointing, with says price advantage than usual.

Exports of clothing at risk, industry chief warns

STAR 30/12/92.

By David Canning

DURBAN — National Clothing Federation (NCF) president Aaron Searll has warned of the "early demise" of blossoming clothing exports unless a new system of import permits is introduced urgently

And, in a look at likely conditions in the industry in 1993, the NCF has cautioned that the recent 20 to 50 percent rise in average import duties on fabrics could result in the loss of thousands of jobs

Looking at likely business conditions, the NCF's Arnold Werbeloff says in the latest edition of Clothing Industry News that the sector faces a depressed local economy and a stagnant world economy.

The local consumer is not yet in a position to stimulate production volumes, he says

Volumes

He says volumes in the clothing industry fell by 7 percent during the period January-July 1992, compared with the same period in 1991, with the index now less than the 1985 average

Textile production declined over the same period by 14 percent, with the index falling to 77 percent of the 1985 average.

As a result of these poor conditions, producer price inflation in the clothing industry rose 9 percent in the year to August 1992. In the textile industry the rise was just 5 percent

In his presidential message, Searll says urgent replacement of Structural Adjustment Programme (SAP) permits has become essential

Outlining the recent history of the permits, he says a formal

Aaron Searll . urgent replacement of permits essential

permit for the clothing pipeline was implemented in April 1989

"This SAP, which was endorsed by all the participants, granted both industries a higher and fixed level of protection, to be gradually reduced after a period of five years, from April 1994 onwards"

In a sense the SAP had been years ahead of subsequent reports emanating from the IDC, Gatt and Sacob

One of the major objectives of the SAP was actively to encourage exports by, inter alia, giving the local industries access to inputs at world prices

This was achieved by issuing permits to exporters, enabling them to import raw materials duty-free

As an afterthought, exporters also were allowed to use these permits to import finished goods such as clothing, the reason advanced being to supplement existing ranges

"Latest official statistics for the 12-month period to March 31 1993, unfortunately indicate that this concession to import finished goods has been somewhat abused"

Of the R344 million worth of permits issued, R160 million was for clothing, whereas only R114 million was for the import of raw fabric and R69 million for the import of raw yarn

Despite this problem (which could easily be addressed by merely limiting the import of manufactured goods), the SAP was achieving its major objective, Searll says

Exports of clothing took off from R190 million in 1990 to an estimated R550 million two years later About 15 000 jobs had been created in the process.

Provision

It was important to remember that the 1989 SAP made provision not only for permits to import duty-free, but also for a deliberate, tailor-made export incentive package, which later contributed significant features to the General Export Incentive Scheme (Geis)

The "phenomenal" growth of clothing exports had been underpinned by two factors — the duty-free permit provisions and Geis.

"Having recently heard that the above duty-free import permit provisions are to be terminated at the end of March 1993 (12 months early), it becomes critically important that the Government and the industry urgently establish a system to replace these permits, with an alternative of equal value.

"Failure to do so will in all probability herald the early demise of South Africa's blossoming clothing exports," says Searll.

IMF, World Bank plans go awry

STAR 30/12/92.

156

WASHINGTON — The International Monetary Fund (IMF) and World Bank are ending what should have been a year of celebration on a sombre note, faced with a stalling world economy and new fissures in Russia's economic reforms.

Charged with guiding the increasingly complex international monetary system, IMF officials say they are particularly concerned about an apparent breakdown in 1992 of a carefully woven system of economic co-operation among the world's largest and richest industrial countries.

It has raised the threat of world recession next year, with policymakers in rich nations going their separate ways rather than doing what is best for the world economy as a whole.

For their part, World Bank officials are worried by their continued inability to lift the world's poorest countries — especially those in sub-Saharan Africa — out of the grinding poverty that has gripped them for decades.

It wasn't supposed to be like this.

This was, after all, the first full year that both the IMF and World Bank became truly global after Russia and the other former Soviet republics joined the two institutions.

"While not every country agrees with everything the two institutions press for, virtually none feel they can be a part of the international economic system without being members," says an official.

The entry of Russia into the ranks of the IMF and World Bank has proven a mixed blessing

The IMF particular has been harshly criticised for being too tough on Russia, demanding Moscow carry out painful reforms before it can obtain IMF money — Sapa-Reuter

IMF, World Bank end dismal year

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Charged with guiding the increasingly complex international monetary system, IMF officials said they were particularly concerned about an apparent breakdown during 1992 of a carefully woven system of economic co-operation among the world's largest and richest industrial countries (156) (386)

That has raised the threat of world recession next year, with policy-makers in rich nations going their separate ways rather than doing what is best for the world economy as a whole. B/DM 30/12/92.

For their part, World Bank officials are worried by their continued inability to lift the world's poorest countries — especially those in sub-Saharan Africa — out of the grinding poverty that has gripped them for decades.

IMF officials have been increasingly disturbed about what they view as a virtual collapse of economic co-ordination among the G7 industrialised countries — the US, Japan, Germany, Britain, France, Italy and Canada.

Monetary sources said the lending agency will press for countries to work more closely together so that upheavals in currency markets and other problems can be better avoided in the coming year. — Sapa-Reuter.

I. M. F.

1993

Brisk start for economic policy's year of action

BDAM 4/1/93. (156)

SIMON WILLSON

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

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

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

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

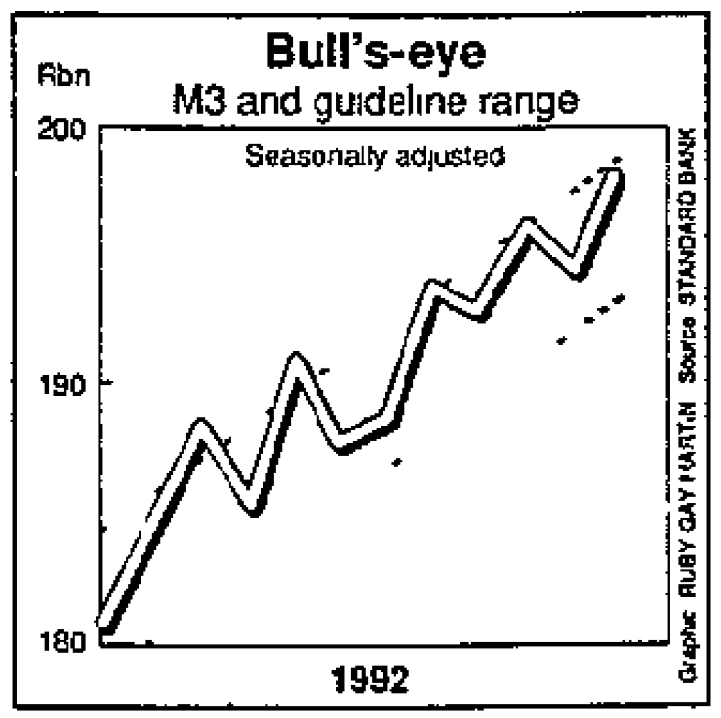
Throughout 1992 Reserve Bank Governor Chris Stals led a growing body of opinion that sought to divert economic policymaking away from the short term, calling instead for a restructuring of the economy that concentrated on medium-term objectives The relative success of recent economic restructuring in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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

Mega projects viable says IDC

S/Times (Buss) 10/1/93. (266) (156).

INVESTMENT and job creation in many labour-intensive industries in SA is constrained by a lack of international competitiveness, says the Industrial Development Corporation (IDC).

By KEVIN DAVIE

"It will take a long time for them to progress to an acceptable level of competitiveness," says managing director Carel van der Merwe

Mr van der Merwe was responding to criticism by the IMF in its annual review of State support for highly capital-intensive projects.

The IMF criticised government support for Alusaf and Columbus, saying this was inappropriate for a country with massive unemployment and a substantial budget deficit problem.

Mr van der Merwe says the staff on the IMF may be skating on thin ice in suggesting that the R7,2-billion Alusaf and R3,2-billion Columbus projects are not economically viable.

He says the promoters of the Alusaf and Columbus projects consider them to be economically viable and were able to convince investors on this score

"Advancing about one-third of the capital needed for these projects is in line with the IDC's norm for financing large or smaller ventures

"The IDC's involvement in any venture can hardly be regarded as State support as no funds are flowing from the fiscus through to these projects."

State support through the Section 37E tax concession is reportedly R700-million and R710-million for the Alusaf and Columbus projects respectively

Alusaf will create 1 800 jobs while Columbus adds only 100 to SA's job market.

Mr van der Merwe says growth in local demand, on which investment and job creation depend, remains slack. This may improve to some extent because investment in the larger projects could stimulate the demand in engineering and construction and ultimately consumer goods.

He says the IDC's financing of large ventures sometimes obscures its continuous support for smaller and medium-sized manufacturing concerns "In 1991/2 IDC authorised R320-million for small and medium-sized independent manufacturing concerns

"Three major projects under consideration are expected to earn R3,8-billion a year in foreign exchange in today's values.

"This is equal to all the manufactured and more labour-intensive exports in final product form achieved by the whole of SA industry in 1991."

Mr van der Merwe says supports for exports of manufactured goods amounts to 19% of export value. "This represents a substantially higher degree of State support than the Section 37E concession."

Finance Minister Derek Keys says to qualify for the 37E benefit (the IMF expects projects valued at between R10-billion and R20-billion to be approved before September), projects have to be internationally robust They will not require protective tariffs or export subsidies to be viable

CAREL VAN DER MERWE ... not State support

He says 37E has two features taxpayers get normal wear and tear allowances when they spend the capital and may transfer the deductions to other taxpayers to the extent that they do not have a tax base themselves.

The IMF criticises this aspect of 37E saying it will contribute to SA's deficit burden.

Mr Keys says government is, by international norms, underspending on public sector capex — the aim of which should be to facilitate private sector development — and "the budgetary effect of 37E fills this gap rather neatly"

Stals seeking debt rescheduling

STAR 26/7/93

LONDON — South Africa would seek a new rescheduling agreement with its commercial bank creditors before the current pact expires at the end of 1993, the Governor of the Reserve Bank, Dr Chris Stals, said yesterday.

The current arrangement covers $5,5 billion of SA's total external debt of $18 billion, the rest not being subject to any restrictions over payment.

"Before the end of this year, we will have to come to a new arrangement with the foreign creditors on what's going to happen to that debt," Stals said

The central bank governor was in London to address the City of London Central Banking Conference organised by Cityforum and sponsored by the World Gold Council.

Stals said that theoretically the $5,5 billion would immediately become payable unless a new agreement was reached.

He said the debt was small in terms of developing country indebtedness worldwide, but was a serious problem for South Africa whose total foreign reserves amounted to $3,5 billion.

Political change

"The major problem is that we have a country that is undergoing major political changes. It's a matter of time before a new kind of government takes over responsibility," said Stals

This made it very difficult to enter into a new agreement with the country's 230 commercial creditors at this point.

"Ideally, we would like to have not only a longer-term arrangement, but a final arrangement," Stals said

"South Africa has made substantial repayments on its foreign debt over the last eight or nine years and we will want to continue and repay that total amount but, obviously, it will have to be spread out over a reasonable period of time"

One banker, who was involved in the negotiation of the current rescheduling pact, said SA would have little difficulty in selling such a deal to creditors.

The debt has been subject to three rescheduling arrangements since international banks imposed a freeze on new credits to South Africa in 1985

Stals said that under the current rescheduling, SA would pay banks three instalments this year. Taken together with its other commitments, the country would pay $1,5 billion this year.

Stals said relations between SA and the multilateral financial institutions were gradually being normalised

156

Studies

He said the World Bank had been carrying out feasibility studies in SA and that the International Monetary Fund (IMF) regularly carried out consultations.

"But so far we have not had to apply to the IMF for any financial assistance and the World Bank has not committed itself to any assistance to SA, pending political developments," Stals added

"All these things will become much easier when an interim government is in place." — Sapa-Reuter.

Assistance for unions

156

Sowetan 4/2/93

THE International Confederation of Free Trade Union is to recommend ways of helping South African trade unions.

Speaking in Durban, ICFTU human rights committee chairman Mr Bob White said the ICFTU would help democratic trade unions fight for freedom and democracy.

IMF advisers facing VAT quandary

By Sven Lünsche STAR 9/2/93. (156)

The International Monetary Fund's (IMF) VAT mission now in South Africa is likely to advise the government against exempting basic food items from a higher VAT rate

It is widely speculated that Finance Minister Derek Keys will exempt basic food stuffs from VAT when he announces a rise in the rate from 10 to 12 or 13 percent in next month's Budget.

A team of five VAT experts from the IMF arrived in SA last week to monitor the implementation of VAT and advise on further steps to legislate the tax

According to a Department of Finance official, the IMF mission will share with the government their international experience on VAT as well as advise on aspects such as multiple ratings and exemptions

When former Finance Minister Barend du Plessis sought the advice of the IMF before implementing VAT, organisations such as Cosatu accused him of having bowed to IMF advice not to exempt or zero-rate basic foodstuffs and electricity and water services

It was only after a prolonged and vociferous campaign by Vatcom, an umbrella body for a number of political groups and trade unions including Cosatu and the ANC, that the government agreed to exempt maize and other basic goods temporarily

At the time Vatcom warned the IMF not to "meddle" in South Africa's financial affairs

A similar dilemma faces SA this time around as Keys, eager to achieve political consensus for his Budget proposals, is believed to have agreed to exempt basic food items in order to receive a smooth passage for a rise in VAT

The IMF position is still that, ideally, only one rate of VAT should be applied to most goods and services and the mission is likely to convey this to government officials

In the meantime economists have warned that an increase in VAT to 12 rather than 13 percent could in the longer-term prove inflationary and cause a tighter monetary policy.

In its latest release Econometrix says the Reserve Bank could raise rather than drop interest rates if the state's deficit before borrowing was not reduced significantly

"If VAT is not increased and other taxes are not raised to reduce the deficit, and if large capital outflows continue, then monetary policy might actually have to be tightened even if inflation remains low.

"Even though a smaller VAT increase would mean a smaller short-term rise in inflation, it would entail a higher Budget deficit, a bigger public debt and associated interest bill and hence higher potential inflation in the longer term," Econometrix says.

● Thomas Cook International has taken a major stake in Vatclaim International, a Rennies Group subsidiary established to help SA companies in Europe to claim back VAT

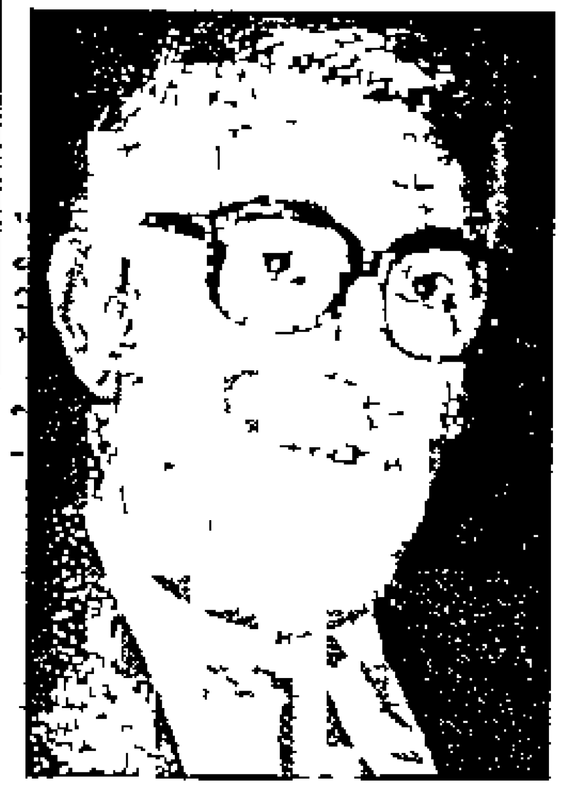
According to a statement the cash injection by Thomas Cook will allow Vatclaim to extend its services to other parts of the world In Europe and the UK alone potential claims could total R50 million a year, Vatclaim says

Star 9/2/93

Reform 'teeters on knife-edge'

(156)

On his second visit to South Africa in eight years — the first since February 1990 — ICFTU secretary-general Enzo Friso comes away with the impression that violence has placed the country at the crossroads of either a negotiated settlement or violent revolution. MIKE SILUMA reports.



Enzo Friso wants bigger role for UN monitors

FOR someone who has been among the most vocal proponents of economic sanctions against South Africa because of apartheid, Enzo Friso, general secretary of the 113 million-member International Confederation of Free Trade Unions (ICFTU), is understandably sceptical about the extent of change in the Republic.

Friso is head of an international fact-finding union delegation of about 30 unionists who have just concluded a visit to South Africa to investigate the causes of political violence at the behest of the Congress of SA Trade Unions (Cosatu) and the National Council of Trade Unions (Nactu).

The delegation met civic, union, employer and church representatives, as well as Mr Justice Richard Goldstone. They toured Johannesburg, East London, Durban, Empangeni and Cape Town, including surrounding townships, many of which have seen some of the worst violence.

Friso says his delegation decided to investigate the violence because "it is a new phenomenon in South Africa", which had the potential to wreck the negotiation process.

"Having spoken to different people it became clear to us that those who are against the democratic process in this country have an interest in perpetuating the violence.

"They want to halt the process and make harder the task of those, on both sides, who want dialogue and an honest compromise.

"Already the Government is saying if the violence does not stop it will be impossible to have an election. Our main concern is to find out who is behind the violence," he says.

Friso is critical of the Government's failure to curb the violence.

"It is difficult to understand why the Government allows people to carry weapons while in the past (before February 1990) this was strictly forbidden.

Admittedly, we do not have direct evidence, but there is the rumour in Natal of some businessmen there encouraging the violence. Somebody is exploiting the political differences in the black communities," he says.

Being ICFTU general secretary makes Friso one of the world's most influential unionists. And he intends using that influence to persuade governments to give United Nations monitors in South Africa the right not just to observe the situation but also to publicly blow the whistle on any parties culpable of undermining the peace process.

"The violence," submits Friso, "can become an obstacle to the democratic process. I believe we can use (the ICFTU's) influence to have the terms of reference of the UN observers widened to allow them to play a more effective role and to denounce publicly all those breaking the rules.

"We need to alert international public opinion to the fact that South Africa is on the eve of a big event, which can either be a peaceful transition or a violent revolution."

At the conclusion of its tour at the weekend, the ICFTU delegation pledged itself to campaigning for the posting of more international observers in South Africa.

Regarding industrial relations, the delegation condemned the "massive violation of trade union rights" in the homelands by "repressive puppet regimes", which, it said, were ultimately Pretoria's responsibility.

According to Friso, the ICFTU will continue providing educational, legal and financial assistance to the South African trade union movement.

The problem of dismantling apartheid, says Friso, is but one of many facing the international union movement.

Economically, these include the loss worldwide of millions of jobs as a result of the present recession which has sharply reduced union membership, especially in developed countries.

In the global economy, the so-called developing countries have stopped developing and are being impoverished by the debt crisis.

"Because of economic problems we have seen the rise in every industrialised country of fascist and racist groups."

All these problems, concludes Friso, make international worker solidarity more imperative than ever before. □

IMF warning to Zambia

18/2/93

LUSAKA — The IMF has advised the Zambian government against increased military spending because it is unproductive and breeds financial indiscipline.

(156)

IMF African department deputy director Edwin Bornemann said in Lusaka yesterday military spending limited growth in other sectors of the economy.

"I know every country needs security, but there is also need for financial discipline. If we can save on military spending, and make more money available for health, education and other viable projects, the country would benefit a great deal," he said

Bornemann warned against excessive wage demands and state overspending as these factors fuelled inflation.

Finance Minister Emmanuel Kasonde said there was no corruption in government circles but added: "Culprits will be flushed out and dealt with severely if identified" — Sapa

SA missile technology could hit IMF loans

St Times 21/2/93.

(156)

From Simon Barber in Washington

SOUTH AFRICA's multi-billion rand commercial space launch programme could prove a serious impediment to World Bank and IMF loans if a new government decides to continue subsidising it, assistant-secretary of State for Africa Herman Cohen warned in a farewell interview

"The new government is going to have to decide whether this is something they want to spend money on the IMF and World Bank may have trouble giving South Africa cash and having it flow into this sort of project"

Armscor-successor Denel and its subsidiaries, Houwteq, Somchem, Kentron and Eloptro, plan to launch a low-orbit imaging satellite developed with a UK firm, Surrey Satellite Technology, from the De Hoop range in 1995

If sufficient foreign investment can be found, the Denel group hopes to become a major competitor in the currently glutted and stagnant commercial launch business

The US, the largest World Bank and IMF shareholder, already takes a dim view of the programme, and fears it may contribute to the spread of "weapons of mass destruction"

Despite assurances from President FW de Klerk that the intention is purely civilian and peaceful, Washington believes the booster Denel is developing could easily be converted into a long-range ballistic missile

In 1991, the Bush administration was obliged by Congress to slap a total embargo on Armscor after determining that it had received booster components from Israel — on whose Shavit-class launcher the SA programme is based

The administration was not well disposed towards Armscor at the time The company and several subsidiaries were, and remain, under indictment for a massive arms smuggling operation

The sanctions now apply to Denel and its subsidiaries

Mr Cohen, who is to be replaced in mid-March, appeared to be sympathetic to the South African position, stressing that the sanctions — which have also been applied to firms in Russia and India — were the idea of Congress, not the administration

"Anti-proliferation in the psyche of Congress is like anti-communism was in the 50s You must by all means prevent every government that does not have missile technology from getting it We don't care whether they're friends or enemies, we must prevent it"

South Africa has made various proposals to obtain a waiver from the sanctions, including a promise not to export its technology

There has been an offer to open facilities for inspection, and Pretoria has asked to join the Missile Technology Control Regime, a club of nations which have the technology and have pledged to restrict transfers to non-members

The problem, said Mr Cohen, was that "our experts tell us that you take a space launcher and turn it 45 degrees and then you've got a missile launcher Therefore we can't consider South Africa to be free of the proliferation threat"

Armscor tells Arabs it will end Israeli ties

MANAMA, Bahrain: South Africa's arms industry has turned its back on Israel as it continues to woo the Arab world

A senior official of Armscor this week told a Gulf state newspaper that the company intends to cease military co-operation with the Hebrew state

The close military co-operation which linked South Africa to Israel was the result of its "needs" and with the end of those needs South Africa "is moving to end that co-operation," said Tielman de Waal, executive general manager of Armscor.

Mr de Waal was reported in the daily Al-Hayat as saying that although "there are still a number of contracts being executed with Israel, these will not be renewed".

He made these remarks at the four-day IDEX 93 arms show that ended this week in neighbouring Abu Dhabi.

South Africa and Israel have had military links for years, mostly involving hi-tech weapons such as fighter aircraft and missile systems

Speaking from Abu Dhabi, where 10 of Denel's divisions exhibited more than 90 products , Mr Johan Alberts, managing director of Denel, said the company was going all-out to position itself as a global player. The drive is aimed at the South African and international markets and concentrates on armaments sales as well as industrial and commercial products, Mr Alberts said

— Foreign Desk

Kenya on its toes for IMF

Sowetan 23/2/92

NAIROBI — Kenya will come under severe international scrutiny from a high-powered team from the International Monetary Fund and the World Bank which arrived here yesterday. The team will take stock of the country's performance in meeting the demands of donor countries for political and economic reforms. On the team's recommendations will depend whether the donors resume the about R1 500 million of aid that was suspended 15 months ago. (163) (156)

Debt payments strain reserves

Weekly Mail Reporter (156) WMail 26/2-4/3/93

PAYING its foreign debts may force South Africa to run down its foreign reserves or turn to the International Monetary Fund (IMF) for assistance this year.

In its latest *Economic Perspectives*, Standard Bank says about $1,8-billion (R5,5-billion) of foreign debt is due to be repaid this year and the bank's economists estimate the surplus on the current account of the balance of payments will fall short of this figure, because import growth will be greater than export growth in 1993. Unless some of the debt is rolled over, making the repayments will be difficult.

The repayments due this year include $430-million in terms of the Third Interim Arrangement between South Africa and its foreign creditors (so-called "affected" or "standstill" debt), $730-million due by Eskom and $640-million by government and other parastatals. According to Standard, Eskom has decided not to roll over its debt because the cost is too high.

If there is a current account deficit and debt obligations cannot be met, South Africa is now in a position, in principle, to apply for IMF funds and could draw down 50 percent of its current IMF quota of about $2-billion, says the bank.

But there's still the problem of the $5-billion of "affected" debt falling due at the end of this year, when the Third Interim Arrangement expires, as well as the debt repayments of between $1,3-billion and $1,65-billion due annually in the period 1994 to 1997.

The Reserve Bank is currently negotiating with foreign creditors regarding the end of the standstill arrangement, which it does not want to renew. Other ways of repaying the debt are being investigated.

South Africa's renewed access to the IMF should encourage foreign creditors to view its outstanding loans more favourably, making it possible to negotiate new repayment agreements at lower interest rates.

However, says Standard, renewed access to the IMF does not in itself mean easier access to foreign funds, since international lending institutions are now far more careful in their country risk analysis than before.

BUSINESS

What sanctions' end means

W/Mail 26/2-4/3/93

The sanctions era is coming to an end. But this means little without renewed access to emergency financial aid from the IMF. **REG RUMNEY** *reports* 156

TRADE sanctions are definitely on the wane, but their going will mean little to the battered South African economy. Norway this week indicated it would gradually ease sanctions. And Sweden said it would lift sanctions within weeks.

Also, the National Executive Committee of the African National Congress this week recommended that sanctions on diplomatic relations, gold coins, trade and trade credits, new investment, loans and other financial links be lifted when an agreed date for elections was announced.

The ANC's latest statement on sanctions has at least cleared up confusion in the minds of investors.

Meg Vorhees, of the Investor Responsibility Research Centre in Washington, comments that most state and local authorities do not have sunset clauses in their laws prohibiting firms doing business with South Africa. Hence the legislative authorities at state and local level would have to take active steps to get these sanctions repealed.

Vorhees doubts it will take as long to have state and city sanctions lifted from South Africa as it did with Namibia.

Flashback ... US demonstrators call for sanctions during an anti-apartheid demonstration

However, she notes that US anti-apartheid groups have called on state and local government to replace sanctions with laws that force companies to comply with requirements of the ANC spelled out at a anti-apartheid conference in New York in November last year, as a first step in the acceptance of a formal code of conduct for US companies in South Africa. Those requirements were, for instance, that returning companies adopt affirmative action policies and aid black economic empowerment.

The ANC's statement did not specifically mention the "financial sanctions" represented by lack of access to International Monetary Fund (IMF) loans.

Econometrix chief economist Azar Jammine remarks that the remaining trade sanctions make little difference to South Africa.

Ironically, because of recession financial sanctions have not over the past three years had much effect either. But Jammine says the ANC must make a positive call for access to IMF loans.

Because of continued recession exports have exceeded imports and South Africa has been able to run a trade surplus and maintain strong gold and foreign exchange reserves. Drought last year and a weak gold price have hit the trade surplus, however.

The need to repay debt under the standstill arrangement is eating into our gold and foreign exchange reserves. If we were unable to repay loans this could cause a run on the currency with attendant inflationary pressures, says Jammine.

Foreign commercial banks will not lend South Africa money, insists Jammine, whatever calls the ANC might make. This is because financial sanctions were only partly politically motivated, while commercial risk considerations also played their part. Hence access to IMF loans may be essential in future if there is a balance of payments (BoP) crisis.

That would especially be brought on by a surge in imports in the event of an upswing. Jammine does not expect much of boom this year, though the economy may move into an upswing in 1994/95. Then IMF loans or a strong showing by gold would have to come to the rescue as imports surged, hitting the BoP.

AFRICA

Banks take the rap for Africa's mess

W/Mail 19/2 - 25/2/93

Two books place a critical spotlight on World Bank and IMF economic policies in Africa. By **VICTORIA BRITTAN**

IN a serious challenge to the World Bank and the International Monetary Fund's prime position in African policy-making, two new books examine the continent's dramatic decline over a dozen years and challenge the orthodoxies of these, the two most powerful institutions on the continent.

Alternative Development Strategies in Sub-Saharan Africa, edited by Frances Stewart, Sanjaya Lall and Samuel Wangwe, and *Africa's Recovery in the 1990s*, edited by Giovanni Andrea Cornia, Rolf van der Hoeven and Thandika Mkandawire, are both published by Macmillan in Britain. They appear against the background of Africa's deep economic crisis in the 1980s, and its continuation into the 1990s with little sign of improvement.

Richard Jolly, deputy executive director of the United Nations children's agency, Unicef, says Africa remains the highest priority for Unicef's aid because it is the one continent where the health and education status of children has deteriorated in recent years and is projected to worsen further in the 1990s. However, other donors are becoming more inclined to cut their losses and target their aid to places with less of a record of failure.

The grim economic situation in three-quarters of African countries is disputed by no one, but a bitter intellectual battle rages over the recipes for improvement. Some long-term goals such as industrialisation have virtually disappeared from current thinking, preoccupied as it is with crisis management.

For over a decade, structural adjustment programmes (SAPs) drawn up by the World Bank and IMF have been the key policies for Africa. They have focused on the stabilisation of macro-economic imbalances, removal of structural bottlenecks, and growth.

Although SAPs have been judged successful in Chile and Indonesia, they have had little success in Africa beyond middle-income countries such as Cameroon and Mauritius. And, while bank officials claim at least fragile achievements across the continent, most others — particularly Africans — blame the harsh regime of SAPs for cuts in employment, and in health and education budgets, which have put the entire social fabric at risk.

In the past few years, under pressure from Unicef, and Jolly in particular, SAPs have been modified to take into account the social dimension and particularly the protection of the most vulnerable groups. But the decline in per capita GDP goes on, and social services cuts mean new generations of less educated, less healthy citizens for the next century.

"There is a greater consensus about the importance of the social dimension, but total consensus certainly has not been achieved," says Dr Giovanni Andrea Cornia, an economist at Unicef and one of the editors of the optimistically titled *Africa's Recovery in the 1990s*.

Frances Stewart introduces *Alternative Development Strategies* by looking at the contradiction between current policies and long-term objectives. She cites three long-term objectives for Africa: industrial development, increasing food production and human resources development. She then asks how the well-known effects of current policy — falling employment figures, school rolls and investment in infrastructure — can be reconciled with those objectives?

The bank and the fund are responsible for the policy advice which has brought about these effects. In addition, the same advisers so encouraged increased production of the primary products which make up 90 percent of Africa's exports that their prices have fallen disastrously. Among major export commodities, coffee, copper and cotton have all dropped by about 25 percent over the past 30 years and cocoa, the only one to be worth more than in the early 1960s, has been on a declining trend since the mid-1970s.

These price trends are not going to be reversed. What could be, she says, is the structure of exports. Stewart's book shows that, compared with South Asia, where between 1965 and 1987 primary products fell from 63 percent of exports to 36 percent, in low-income African countries they rose from 92 percent to 94 percent.

Among other major problems she identifies is the reduced local control which has been a result of the privatisation encouraged by SAPs, and the excessive liberalisation of imports which has led, in Ghana for instance, to de-industrialisation, as the textile industry has collapsed under the impact of imported second-hand clothes from Europe. "African countries basically lost control of their policies in the 1980s," she comments.

Both books emphasise new strategies which the authors — who include distinguished African economists — believe could work. These include:

- Growth of indigenous food crops by increasing resources given to this area such as subsidies on fertilisers and other inputs, and lending no more to traditional export areas such as coffee.
- Commodity price support schemes.
- Support for rural non-agricultural development.
- A serious bid for industrialisation.
- Boosting human resources by improved targeting of aid so as to increase the proportion for education and health.

Most important of all, they propose cancellation of at least part of official debt, and conversion of Africa's debt to the bank and the fund to low-interest, long-term loans, thus avoiding the massive transfers that amounted to $1,1-billion (R3,3-billion) in 1989. They also propose a write-down of one fifth of private sector debt, which would provide an extra $800 million (R2,4-billion) for Africa annually.

Many of these ideas have been put forward repeatedly by Unicef, the United Nations Development Programme's Human Development Report and the Economic Commission for Africa, but they have a long way to go before being accepted as a real alternative to the World Bank/IMF's unsuccessful prescriptions for Africa's desperate situation. — The Guardian News Service

GLOBAL CURRENT ACCOUNT

In the red

FM 26/2/93

156

Errors and omissions continue to swallow a big chunk of the world's trade and service transactions The IMF reports a global cur-

Continued on page 38

ECONOMY & FINANCE FM 26/2/93.

156

Continued from page 35

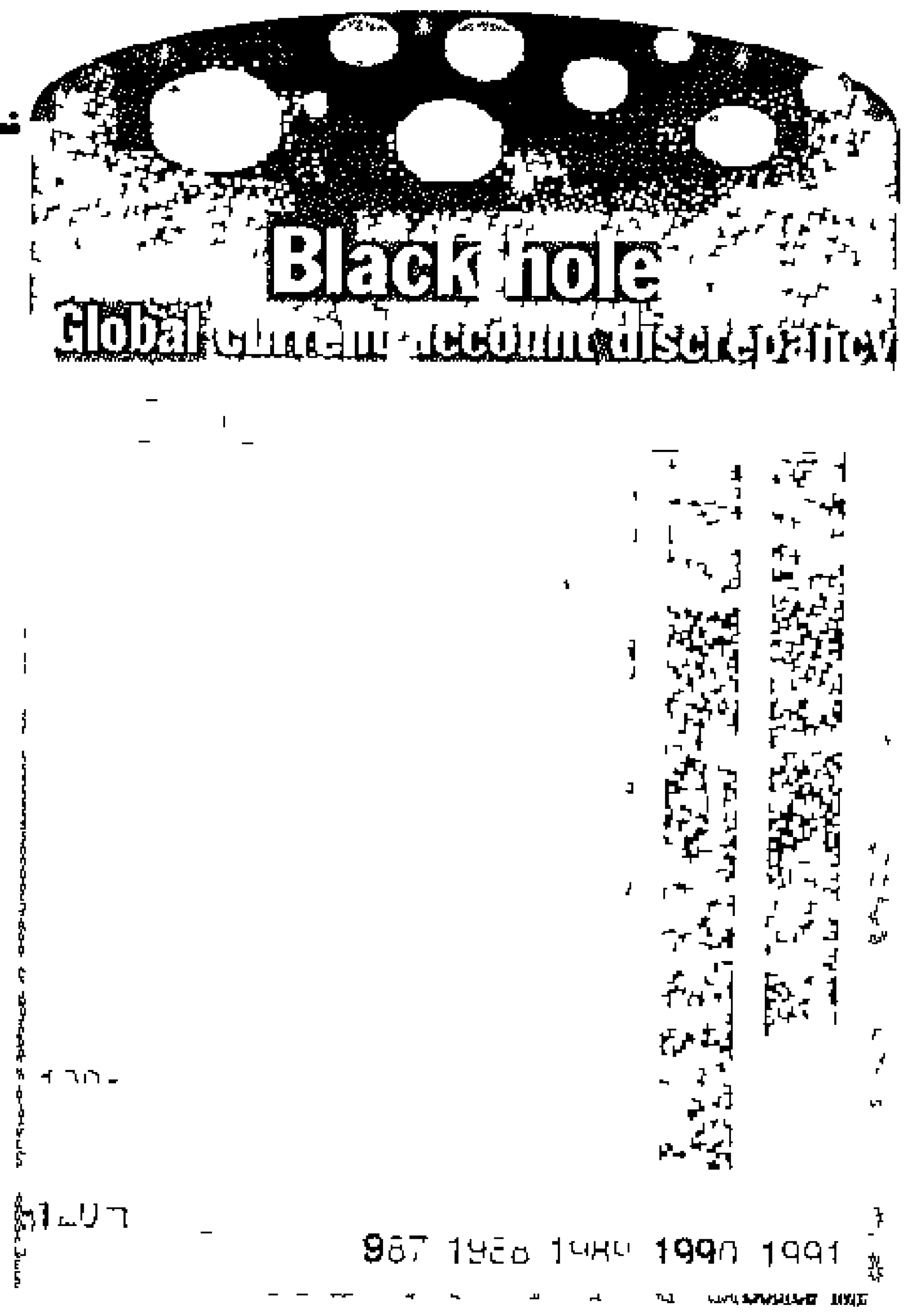
rent account discrepancy of $91,1bn in 1991 (see graph)

"Conceptually, the surpluses and deficits on current account of all countries and international organisations should offset each other, leaving no global discrepancy" says the IMF's January *Survey*, "but this does not happen in practice The discrepancy, which improved significantly in 1986 and 1987, worsened persistently over the next three years, reaching $112,5bn in 1990

"However, as a proportion of global current account payments, the discrepancy has shown a downward trend from -3% in 1985 to -2,1,% in 1990 and - 1,6% in 1991 "

The problem arose when a $19,7bn deficit reported in 1978 grew to $113,9bn by 1982 Concern that statistical discrepancies would lead to inappropriate policies prompted an investigation by the IMF A working party was organised in 1985 and the *Report on the World Current Account Discrepancy* was published in 1987

It tracked the main source of the persistent deficit to the investment income account and concluded that an "overriding factor was the emergence of a large body of cross-border assets recognised by the debtor countries but not by the creditors By far the largest discrepancy shows up in income flows related to portfolio investments, including interest on positions held with or by banks, as well as returns on cross-border holdings of securities, trade credits and miscellaneous assets "



Other components of the current account which contributed to the deficit were found to be the items

☐ Shipment,

☐ Official unrequited transfers, and

☐ Other official goods, services and income

Positive imbalances, which only partially offset the negatives, were found in

☐ Reinvested earnings on direct investment,

☐ Other private goods, services and income; and

☐ Merchandise

The IMF's *Balance of Payments Statistics Yearbook* for 1992 contains data adjusted for the global discrepancy to make the "standard components more analytically useful " ■

Application by Aansoek van	Place of meeting Plek van byeenkoms	Date and time Datum en tyd
Andries Pieter Müller (Id. No. 320624 5008 008), of the farm/van die plaas Lovedale, P O Box/ Posbus 137, Lindley, 9630	Magistrate's Office/Kantoor van die Landdros, Lindley	26 March/Maart 1993 at/ om 10 00

(19 February 1993)/(19 Februarie 1993)

NOTICE 152 OF 1993

HARMFUL BUSINESS PRACTICES ACT, 1988

BUSINESS PRACTICES COMMITTEE

74F

In terms of the provisions of section 8 (4) of the Harmful Business Practices Act, 1988 (Act No. 71 of 1988), notice is hereby given that the Business Practices Committee intends to undertake an investigation in terms of section 8 (1) (b) of the said Act into the business practice where goods imported into the Republic of South Africa are sold or offered for sale as new goods—

(a) in a form or state which is not approved by the owner of the trade mark under which they are sold or offered for sale;

(b) in a form or state which does not conform with the requirements or technical specifications with which such a product must comply in order to be sold lawfully or to enable it to function properly or safely in the Republic of South Africa,

(c) are represented as having a sponsorship, approval, status, warranty, repair and back-up services, affiliation or connection recognized by the proprietor of the trade mark under which they are sold, if this is not the case

Any person may within a period of 60 days from the date of this notice make written representations regarding the above-mentioned investigation to the Business Practices Committee Representations must be addressed to:

The Secretary
Business Practices Committee
Private Bag X84
PRETORIA
0001

[Ref. H101/20/10/67 (91) Enquiries Mrs J M van der Merwe, Tel (012) 310-9579]

(19 February 1993)

KENNISGEWING 152 VAN 1993

WET OP SKADELIKE SAKEPRAKTYKE, 1988

SAKEPRAKTYKEKOMITEE

Ingevolge die bepalings van artikel 8 (4) van die Wet op Skadelike Sakepraktyke, 1988 (Wet No 71 van 1988), word hiermee kennis gegee dat die Sakepraktykekomitee van voorneme is om kragtens die bepalings van artikel 8 (1) (b) van gemelde Wet ondersoek in te stel na die sakepraktyk waar goedere wat in die Republiek van Suid-Afrika ingevoer word as nuwe goedere verkoop of vir verkoop aangebied word—

(a) in 'n vorm of toestand wat nie deur die eienaar van die handelsmerk waaronder dit verkoop of vir verkoop aangebied word, goedgekeur is nie,

(b) in 'n vorm of toestand wat nie ooreenstem met die vereistes of tegniese spesifikasies waaraan sodanige produk moet voldoen nie ten einde wettiglik verkoop te word of ten einde dit in staat te stel om behoorlik of veilig in die Republiek van Suid-Afrika te funksioneer;

(c) voorgestel word as sou dit beskik oor 'n borgskap, goedkeuring, status, waarborg, herstel- en rugsteuningsdienste, affiliasie of verbintenis wat erken word deur die eienaar van die handelsmerk waaronder dit verkoop word, indien dit nie die geval is nie.

Enige persoon kan binne 'n tydperk van 60 dae vanaf die datum van hierdie kennisgewing skriftelike vertoe aangaande die voorgestelde ondersoek tot die Sakepraktykekomitee rig. Vertoe moet gerig word aan·

Die Sekretaris
Sakepraktykekomitee
Privaat Sak X84
PRETORIA
0001.

[Verw. H101/20/10/67 (91) Navrae· Mev J M van der Merwe, Tel (012) 310-9579]

(19 Februarie 1993)

NOTICE 154 OF 1993

DEPARTMENT OF TRANSPORT

AIR SERVICE LICENSING ACT, 1990 (ACT No. 115 OF 1990)

Pursuant to the provisions of section 15 (1) (b) of Act No 115 of 1990 and regulation 8 of the Domestic Air Services Regulations, 1991, it is hereby notified for general information that the application(s) details of which appear in the Schedule hereto, will be considered by the Air Service Licensing Council

KENNISGEWING 154 VAN 1993

DEPARTEMENT VAN VERVOER

WET OP DIE LISENSIERING VAN LUGDIENSTE, 1990 (WET No 115 VAN 1990)

Hierby word ingevolge die bepalings van artikel 15 (1) (b) van Wet No 115 van 1990 en regulasie 8 van die Regulasies vir Binnelandse Lugdienste, 1991, vir algemene inligting bekend gemaak dat die Lugdienslisensieringsraad die aansoeke waarvan besonderhede in die Bylae hieronder verskyn, sal oorweeg

Not new ideas, but maybe this time they'll be enacted

BDay 10/3/93.

SIMON WILLSON

(156)

FINE words, the saying goes, butter no parsnips. As the extract from a 1976 government economic plan illustrates, the laudable sentiments in Derek Keys's economic restructuring programme have been expressed before. All that is required of the authorities now is that the medium-term plan for the economy which successive governments have broadly supported for nearly 20 years actually be implemented

The structural adjustment proposals published yesterday are, however, more likely than any of their predecessors to be enacted This is partly because of the dire state of the domestic economy and the socio-political turbulence that springs from it, and partly because so many of SA's trading partners, competitors and subcontinental African neighbours have already carried out similar reforms

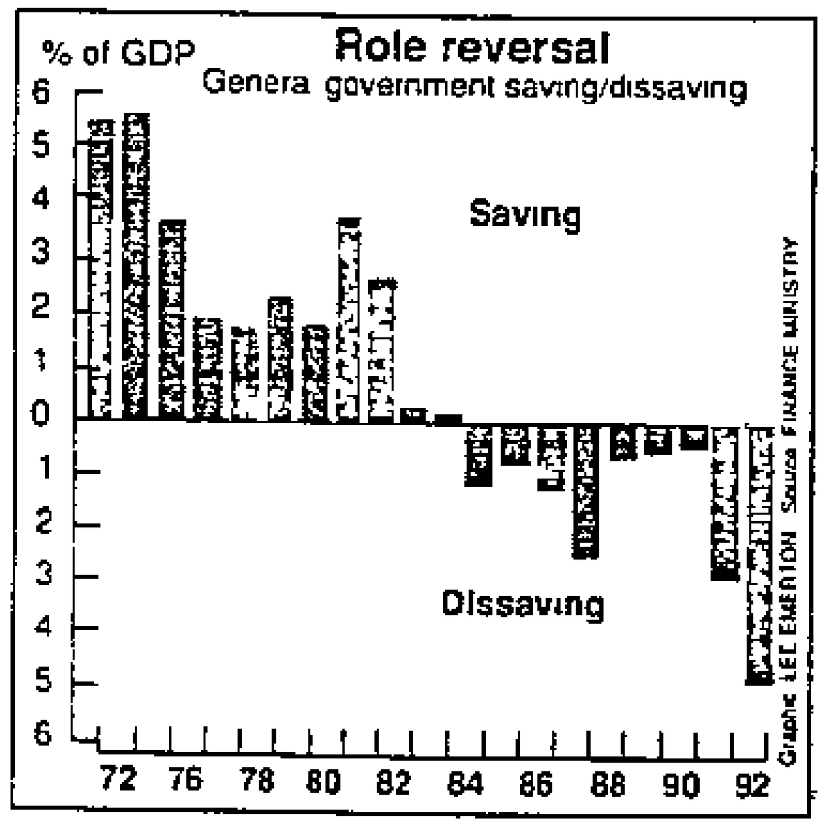
Restructuring now has an irresistible internal and external momentum which it lacked when it was periodically proposed during the last two decades

Now that national decision-making is a more consultative process than it used to be, economic adjustment will also be a more painstaking and time-consuming process A longer gestation will, however, merely ensure that subsequent legislation is effective and enduring

Many of the domestic influences that have now made wholesale restructuring a policy priority have appeared relatively recently in SA's economic history

As the first chart shows, the government dissaving that the Keys model identifies as such a destructive force is by no means a chronic malaise and really became entrenched only in the mid-'80s.

State dissaving is now a permanent feature on the economic landscape and one of the most prominent signs of the dissolute state of the public finances It is this slide into laxity and inefficacy in state budgeting that has contributed much to economic restructuring's newly acquired momentum



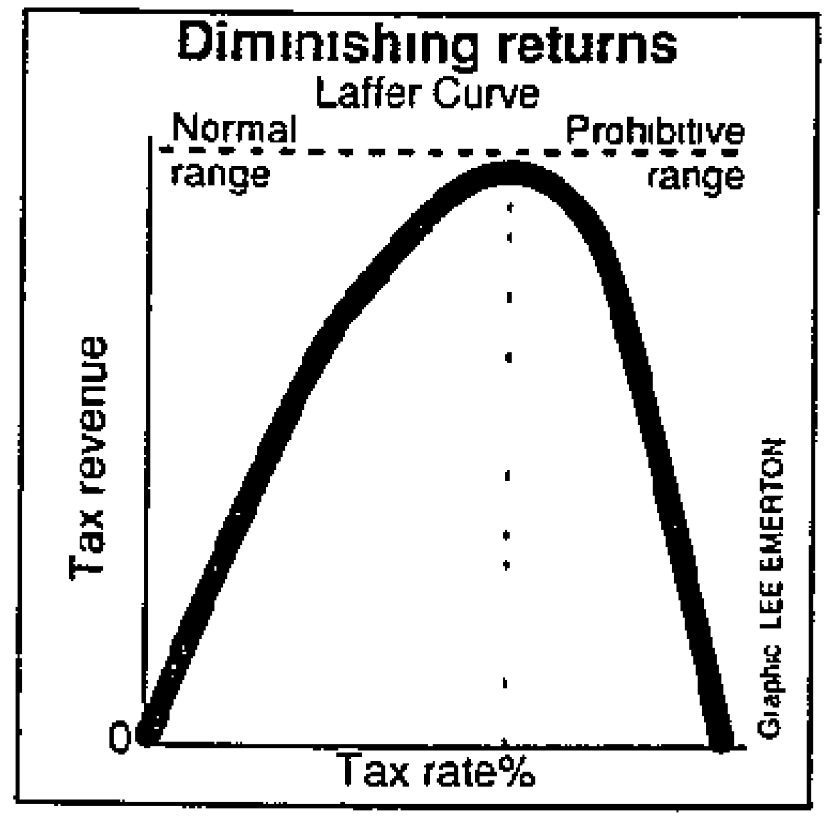
"When stimulating measures can again be introduced, such measures should not place the accent on an acceleration of expenditure in the public sector the greatest possible encouragement should be given to the private business sector to increase its investment in new productive capacity" — **Prime Minister's Economic Advisory Council, November 1976.**

The Keys model associates state dissaving with higher inflation, the widening Budget deficit, the increase in the tax burden, the weakening balance of payments position, curtailed state capital formation and the constraint on domestic investment The model thus aligns many of the economy's most serious current ills to a single point of origin simple mismanagement of the public finances. If so many contemporary economic problems can be traced back to one relatively modern source, the required course of remedial action acquires a conveniently narrow focus

A centrepiece of the Keys plan is, accordingly, the elimination of state dissaving by 1997 Dissaving has become so entrenched as a fiscal policy component that to eradicate it at a stroke would further destabilise an economy already stressed by readjustment, so the full five-year span of the plan is to be used to reimpose discipline on public spending. Dissaving's extinction is, however, likely to be all the more permanent for being phased and deliberate rather than instantaneous and improvised.

The external imperatives that have impelled structural adjustment on the SA economy are just as formidable as its inexorable domestic degeneration The letters IMF are to be found at regular intervals throughout the model's 17 chapters — an indication of the authorities' acceptance of many of the IMF's prescriptions for economic salvation

In adjusting the economy to IMF specifications, the Keys plan is merely acknowledging two increasingly evident realities that tangible benefits arise from the adoption of IMF policies, and that SA will shortly need to draw down on multilateral finance and should waste no time in pre-qualifying for such support



The enhanced structural adjustment facilities (Esafs) extended by the IMF to sub-Saharan African countries since March 1986 have been conditional on borrower countries restructuring their economies IMF monitoring of the Esaf economies purports to show significant improvements in economic performance since the implementation of fund-specified reforms

The IMF has compared average economic performance by beneficiary countries in the three years before Esaf adoption with their subsequent accomplishments, and claims improvements in several key areas Economic growth, savings ratios and foreign reserves levels have risen, while there have been declines in current account and budget deficits and in import propensity

Another advantage said to be conferred on countries restructuring to IMF blueprints is that of catalytic effect flows — flows of private sector and other non-multilateral finance into a country from non-governmental creditors reassured by the country's adherence to IMF economic norms

SA, in common with many of its subcontinental neighbours, urgently needs precisely such macroeconomic enhancements and private sector investment interest Furthermore, SA will probably need IMF balance of payments support sometime next year when the current account moves into cyclical deficit with the onset of recovery The logic, therefore, of pre-empting IMF conditionality requirements by liberalising and deregulating the economy is incontestable

The second chart is not to be found on any of the Keys model's 305 pages, but its central assertion underlies the model's candid admission that SA's personal and corporate tax rates are too high

The chart features the famous Laffer Curve, first scribbled onto a table napkin in 1974 by Arthur Laffer of Southern California University It shows that, as tax rates rise, there is a point at which exchequer revenues drop due to the disincentive effect. Conversely, the Laffer Curve also states that lowering tax rates can eliminate disincentives, broaden the tax base and raise revenues

The IMF assessment of the SA economy carried out in September last year is believed to have recommended that Budget deficit reduction be addressed by extending the tax base and reducing tax expenditures rather than by raising tax rates, implicitly to avoid the Laffer Curve effect on revenues Along with the rest of its conformity with IMF prescriptions, the Keys model appears to accept this reasoning

World's eyes will be on the Budget

BIDAY 10/3/93. 156

JIM JONES

IF THERE is a spectre that haunts Finance Minister Derek Keys, it must surely be the fear that, no matter what political accords are eventually reached in SA, the attitudes of foreign investors will have already hardened

Many investors abroad have already consigned us to the same benighted future faced by the rest of our continent, and their views will not change easily

So, when the normative economic model is presented to the ANC and Cosatu for comment and when Keys delivers his Budget speech in Parliament next Wednesday, he is likely to be as sensitive to international reaction as to domestic

Prospects outlined by the economic model are not cast in concrete. They are based on best possible assumptions on the mobilisation of foreign as well as domestic capital. That, in its turn, will depend on perceptions rather than hard numbers And Keys, possibly more than any of his Cabinet colleagues, realises that it will be his responsibility to persuade people at home and abroad that SA's economy can be put back on track.

Neither the ANC nor Cosatu will be eager to endorse the economic model in public That would imply acceptance of responsibility for seeing that it worked Public acceptance is likely only after the election of a popular government and after the model's projections are seen as having a chance of succeeding Again, much will depend on how next week's Budget is received

The IMF has already agreed in principle to making finance available to SA, depending on the seriousness of the Budget. This implies little or no divergence between the strategic aims of the Budget and the five-year economic model.

Populist economics should not predominate next week But we need not be altogether as lugubrious as Finance special adviser Japie Jacobs who last week tagged this year's Budget as likely to be SA's worst in living memory. Nevertheless, many prospective foreign investors will take their line from the IMF. If the Budget does not persuade the IMF of the seriousness of our economic policies, we might just as well factor foreign investment out of our macro-economic planning

This year, the last before SA is blessed with its first popularly elected government, will be crucial in persuading local industrialists and businessmen to invest in new productive capacity. They were misled by Barend du Plessis' glib promises of tax cuts a few years ago. And though they know Keys is cast in a different mould, they will not readily believe the economic model's five-year tax reduction targets if a start is not made in this year's Budget

It may seem unduly harsh to the country's disadvantaged majority anxious to improve living standards quickly, but business is probably the most important factor in the economic equation if we are to reach the 4,5% GDP growth targeted in the model Innovative tax developments such as lower tax rates for smaller businesses could kill two birds with one stone — encourage the formation of new businesses and indicate to opposition groups that wealth redistribution is best achieved through economic growth

The Budget will have its social objectives The most obvious will be to equalise social pensions But the R1,5bn cost of that cannot be met by milking business through higher corporate taxes Nor can social objectives realistically be met by hiking excise duties on products such as tobacco, alcohol or petrol Spending increases have to be financed from higher taxes on consumption VAT will increase overall — the political fall-out could be dissipated by zero-rating basic foodstuffs

Establishment of differential VAT rates would be a clear signal to foreign investors or lenders of both political sensitivity and the seriousness with which we view the need to curb the Budget deficit

Criticism of VAT rate increases from the left could also be deflected by creating the impression that the overall tax burden will fall more heavily on the wealthier sector of the community than on the poorer But as Keys is serious about showing the economic model is supported by the Budget, he will also have to act on his aim of lowering personal income taxes Individual taxpayers, too, are sceptical of government's promises in the wake of Du Plessis' broken pledges Providing them with a sign that the economic model has a realistic chance of succeeding will be as important in changing gloomy perceptions as will be persuading organised business.

Keys is unlikely to have prepared a Budget which does not involve some reduction in real government spending That is despite the social objectives he must address

Keys's spectre remains our spectre South Africans themselves must be convinced that the economy can be restored

SPOT DESK

drop in the jobless rate in tomor-

BUSINESS Economic boom could be in 1994 or 1995 • Argus

Upturn in SA steadily fading

Sowetan 18/3/93 156

UNION VIEW Local economists cautious about committing themselves about 1993 forecast:

By Mzimkulu Malunga

HOPES FOR AN UPTURN in the South African economy this year are steadily fading, says the influential International Confederation of Free Trade Unions (ICFTU)

The organisation says South African economists, having been proved wrong last year in their forecasts that 1992 would be a good year for business, are cautious about committing themselves on growth prospects in 1993

Basing its analysis on various indicators, including the contentious issue of Government deficit, the ICFTU says "Economists expect that real wages are unlikely to go up until the next economic boom, which could be in 1994 or even 1995"

A disturbing trend in this country is what is colloquially termed the "capital strike", the apparent unwillingness by financial institutions to invest in new factories, farms or mines, the ICFTU says

Spending on new plants declined by R10 billion to R23 billion between 1981 and 1992 "Everybody owes a lot of money — government, companies as well as consumers — and confidence is low

"Consumer spending is falling for the first time since 1985," argues ICFTU

Not only private sector investment has fallen, government investment spending also plunged 22 percent Investment by public corporations declined 52 percent.

Releasing the Afrikaanse Handelsinstituut's Inflation Barometer last week, chief economist Nick Barnardt said there was no indication that the much awaited economic recovery phase would start during the course of this year Outflows of money from South Africa, decline of the country's foreign reserves, trade performance and the rand-dollar exchange rate were some of the factors dampening confidence for an upturn in 1993

"The safest GDP growth forecast for 1993 is somewhere around 0,5 percent," Barnardt said

Though the inflation rate came down from 14 percent to about 10 percent late last year and interest rates fell modestly, these were not enough to stimulate business

Govt considers formal IMF drought aid request

B/D Af 18/3/93 **Political Staff** (156)

CAPE TOWN — Government is considering lodging a formal request for drought aid assistance from the IMF

The IMF has a "compensatory and contingency financing facility" available to countries experiencing temporary balance of payments problems resulting from the import of grain in times of drought (3) Gen

"Given the fact that maize and wheat now have to be imported, a formal request for assistance for drought aid under this facility will be considered should the level of foreign reserves become cause for concern," Finance Minister Derek Keys said in his Budget review

Keys also said development aid organisations in Africa were showing an "increasing interest" in SA

The African Development Bank had, for example, already financed an investigation into economic integration in southern Africa (49)

This also probed the "co-operation prospects" for the area by the Preferential Trade Area, the Southern Africa Development Community, the Common Monetary Area agreement and the Southern African Customs Union

The "more relaxed political attitudes" towards SA had also manifested themselves in a growing demand for SA goods and services. This was illustrated by the growth in nominal terms of South African exports to Africa by some 27% from 1990 to 1991 (297) (241)

Meanwhile, government's national nutrition and social development programme was benefiting 3,5-million people, the Department of Finance announced yesterday.

The programme, which was initiated in the 1991/2 financial year, was allocated R440m in the 1992/3 financial year, it said in its Budget Review.

SA initiates double tax agreements

(156) (3??)

CT 18/3/93

Political Staff

DRAFT double taxation agreements had been initiated by South Africa with France, Hungary, Namibia, Poland, China and Rumania, Finance Minister Mr Derek Keys said.

He said negotiations were also taking place with Lesotho, Mauritius and Russia.

South Africa's greater international acceptance had also paved the way for more active involvement by the World Bank and the International Monetary Fund

Mr Keys said a request for IMF assistance for drought aid would be considered should the level of South Africa's foreign reserves become a cause for concern

Improved international relations had also helped combat fraud and smuggling as officials had greater access to other countries and more assistance from other Customs & Excise administrations

Drought: Govt may ask IMF for money

CT 18/3/93

Political Staff

THE government is considering a formal request for assistance from the International Monetary Fund (IMF) for drought aid

The IMF has a "compensatory and contingency financing facility" available to countries experiencing temporary balance of payments problems resulting from the import of grain in times of drought.

"Given the fact that maize and wheat now have to be imported, a formal request for assistance for drought aid under this facility will be considered should the level of foreign reserves become cause for concern," said Finance Minister Mr Derek Keys in his Budget review, tabled yesterday.

He also said development aid organisations in Africa were showing an "increasing interest" in South Africa The African Development Bank had, for example, financed an investigation into economic integration in Southern Africa.

The "more relaxed political attitudes" towards South Africa had also manifested themselves in a growing demand for South African goods and services. This was illustrated by the growth of exports to Africa by some 27% from 1990 to 1991

Kenya reverses reforms after IMF row

NAIROBI — Kenya reversed key economic liberalisation measures yesterday after a major row with the IMF over economic policy

A central bank announcement reintroduced several foreign currency controls lifted only last month in an attempt to win IMF support for a return of Western aid

The liberalisation measures included floating the Kenyan shilling which has since plummeted by more than 60% against sterling, the dollar and most other major currencies

The central bank said yesterday it was abolishing "retention accounts" that allowed exporters to keep hard currency instead of remitting it to the central bank, and said receipts from tea and coffee exports also had to be handed over to the central authorities. (156)

It said all outstanding foreign exchange allocation licences which required foreign exchange would have to be settled through the central bank

The statement follows an increasingly bitter war of words between Kenyan President Daniel arap Moi and the IMF and World Bank Moi has accused the IMF of demanding "dictatorial and suicidal" reforms in return for a resumption of aid, cut off in November 1991 — Sapa-Reuter.

23/3/93

3/01/17

IMF plan 'too harsh'

NAIROBI—The Kenyan government has revoked economic reforms recommended by the International Monetary Fund (IMF), saying harsh donor conditions for resumed aid were crippling the economy.

156

Kenya had agreed to the reforms, demanded by World Bank donors as a condition for restoring aid worth about $US40 million a month that was suspended in November 1991 to press for economic and political reforms.

dFinance minister Mr Musalia Mudavadi said the IMF was unfairly punishing Kenya by refusing to resume full aid despite the government's attempts to meet the conditions through several major reforms.

—*Sapa-AFP-Reuter and Argus Africa News Service*

Sowetan 24/3/93

US threat: No loans unless missiles go

156

By EDDIE KOCH

W/Mail 26/3-1/4/93.

THE World Bank and International Monetary Fund (IMF) — acting under pressure from the United States administration — are likely to refuse international loans to South Africa if the government presses ahead with its missile programme, according to government officials in Washington.

A row between Washington and Pretoria over South Africa's long-range missile programme will form the next round in an ongoing dispute between the two countries over arms proliferation issues, now that President FW de Klerk has come clean about his government's nuclear bombs.

South Africa's armaments manufacturer, Denel, says it plans to convert its long-range ballistic missile technology into rockets capable of carrying satellites into space for commercial purposes.

South Africa now wants to join the Missile Control Technology Regime which tries to prevent non-member countries from obtaining rockets capable of carrying nuclear and other warheads.

This is unlikely to satisfy the US which is deeply concerned about missile technology being made available to Third World and Arab countries and is likely to push Pretoria into abandoning its long-range ballistic programme. The US administration's fears have been heightened by concern that an African National Congress-led government might in future provide the technology to old allies, such as Libya.

De Klerk said this week that his government would resist these pressures as the programme had now been converted to peaceful purposes and South Africa was willing to abide by the terms of the missile control regime.

The US government issued a statement urging South Africa to cancel the programme.

"We have explained our missile concerns to the South African government and have urged them to reconsider the programme," it said.

The World Bank and IMF, which are dominated by the US, have recently begun linking loans for Third World countries to defence cuts and are likely to insert clauses relating specifically to expenditure on missile development to finance for South Africa.

A spokesman for the Department of Foreign Affairs says South Africa has not yet applied to join the missile regime but has indicated it is keen to participate.

The reason for this is that membership means Denel will gain access to the latest in missile research and technology which will help to iron out some of the problems it is experiencing in developing its booster rocket, says Abdul Minty from the World Campaign Against Military and Nuclear Collaboration with South Africa.

He said the US was unlikely to allow the South Africans to gain these technological advantages, given the strong concerns about proliferation and the potential for commercial missiles to be turned to military uses.

Roger Jardine, the ANC's policy co-ordinator for science and technology, said a new government of national unity would "reconsider all apartheid white elephants" and was less likely to pursue a missile programme.

No problems expected with payment of goods for Kenya

BDAY 26/3/93

KELVIN BROWN

MOST SA exporters to Kenya would not have a problem being paid after the recent reimposition of strict foreign exchange controls in Kenya, Safto African divison senior manager Paul Runge said yesterday.

Kenyan President Daniel Arap Moi has announced the scrapping of an IMF and World Bank reform plan introduced 31 days ago

The government has taken control of all foreign currency to enable the country to pay for imports of essential goods

Kenya is SA's 14th largest trading partner in Africa, exports to Kenya in the first six months of last year rising to R69m, up by 25% on the first six months of 1991.

Runge said most of the business was with multinationals or with companies who had issued letters of credit. Multinationals in Kenya usually paid suppliers from overseas accounts.

The Kenyan government has announced that it would honour letters of credit if importers could provide documentary proof that letters of credit had been issued

However, Runge said there would probably be an administrative delay of some months before the foreign currency was released.

The government would want to stall payment as long as possible to enable forex reserves to build up

Exporters who had entered into transactions to supply a Kenyan company without letters of credit would "battle" to receive payment. Priority had been given to Kenyan importers who had issued letters of credit

Credit Guarantee was still insuring companies trading with Kenya, the company's assistant GM Gernot Kruger said

Credit Guarantee was one of the major insurers against payment not been received from foreign buyers of SA goods About 30 companies with supply contracts to Kenya, totalling R25m, were currently insured by Credit Guarantee

Kruger expected Kenya would not maintain the present situation for long

"The World Bank and IMF would not look too kindly on Moi's decision to go back on the liberalisation plan"

Kenya had a large foreign debt which would not be rescheduled unless a positive report was received from the IMF, he said

● Comment Page 10

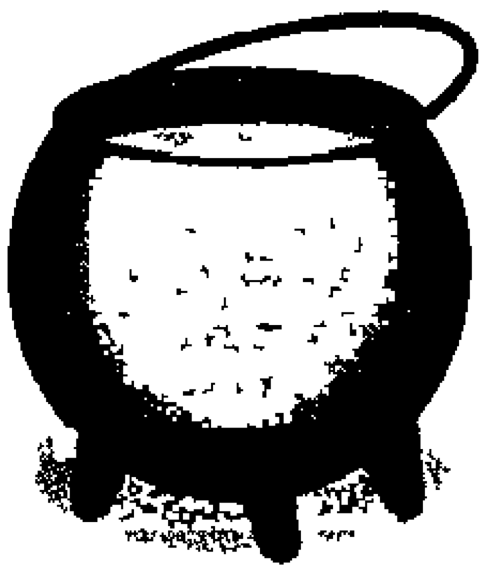
THE IMF IN AFRICA

FM 9/4/93

Faults on both sides

156

African countries have been allowed to become aid addicts



Kenya's decision to abandon an IMF reform programme and go it alone marks the end of an era. For a quarter of a century, until 1990, Kenya was the World Bank's and the IMF's role model for Africa — the African economic success story, the country that had turned its back on African socialism and, as a result, commanded widespread donor support.

Today it is a tale of the suitor spurned The bitterness with which some in the donor community have turned against Kenya is only partly a reflection of the new realism prevalent in a capital-hungry, capital-scarce world There is also a determination, not so much to punish Nairobi for its political and economic misdeeds, but to transform the role model into a test case

The Kenyans are bitter because they believe they have done as much as could reasonably be expected Kenya's fall from grace started in the late Eighties, with the growing Western restiveness over corruption and the undemocratic nature of President Daniel arap Moi's one-party State

In November 1991, the donors suspended all non-humanitarian aid to Kenya, worth about US$40m a month, and demanded a range of political reforms, including the holding of free and fair multiparty elections; greater transparency and accountability in government finances, and accelerated privatisation and the relaxation of exchange controls

Though Moi agreed to these demands, little progress was made until the end of 1992, when he won 37% of the vote in elections that were described by Western observers as flawed but still broadly reflecting the will of the people In February, just days before an IMF mission was due, the new administration began to liberalise exchange controls, floated the currency, promised to tighten monetary policy and, on March 9, devalued the shilling by 20%

The IMF said this was not enough, arguing — correctly — that devaluation wouldn't work without a tighter monetary and fiscal stance

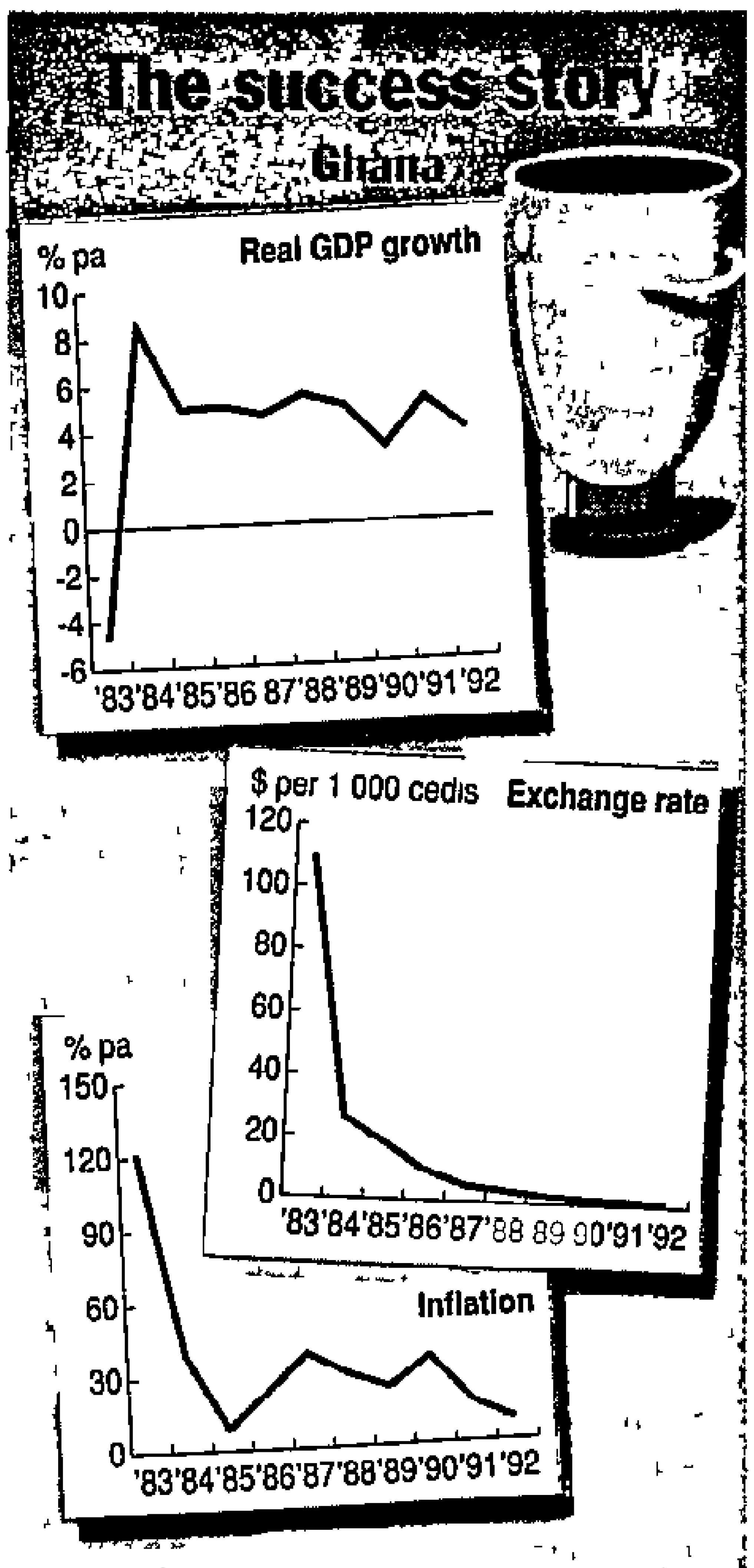
But this, it seems, was too much for Moi, who bitterly criticised the Washington multilaterals — the Fund and the Bank — for their double standards and rejected their "dictatorial" demands for "suicidal" economic policies.

He has a point If the Fund always refused to lend to countries whose budget deficits were too large and monetary policies too loose, it would have very few African clients. Neither Zambia nor Zimbabwe would pass the test and not even Ghana — sub-Saharan Africa's current success story — would qualify.

Aid demand is growing rapidly, not just in eastern Europe and the former Soviet Union, while supply is coming under increasing pressure as Western governments seek to cut budget deficits. In this situation, the donors are right to reward those who play by the rules and shun those — such as Kenya, Nigeria and, under former President Kenneth Kaunda, Zambia — who sign the pledge and then play fast and loose

Nevertheless, this approach is seriously flawed First, not all the blame lies with the recipient governments; there is a growing body of evidence, much of it in internal World Bank research papers, highlighting flaws in conventional structural adjustment programmes

A recent World Bank assessment of lending policies concludes grimly that the number of projects with major problems virtually doubled from 11% in 1981 to 20% 10 years later, the number of projects which were




Moi

unsatisfactory at completion rose from 15% in 1981 to 37% in 1991, while cancellations have increased 50% in the past three years

Secondly, the donors seem unable to apply their yardsticks evenly Kenyans blame the US government and specifically the former US ambassador to Nairobi, Smith Hempstone, for their harsh treatment at the hands of the World Bank and IMF This is unfair, since in both institutions the real hardliners at executive level are more often than not the Japanese, sometimes backed by the Germans or French

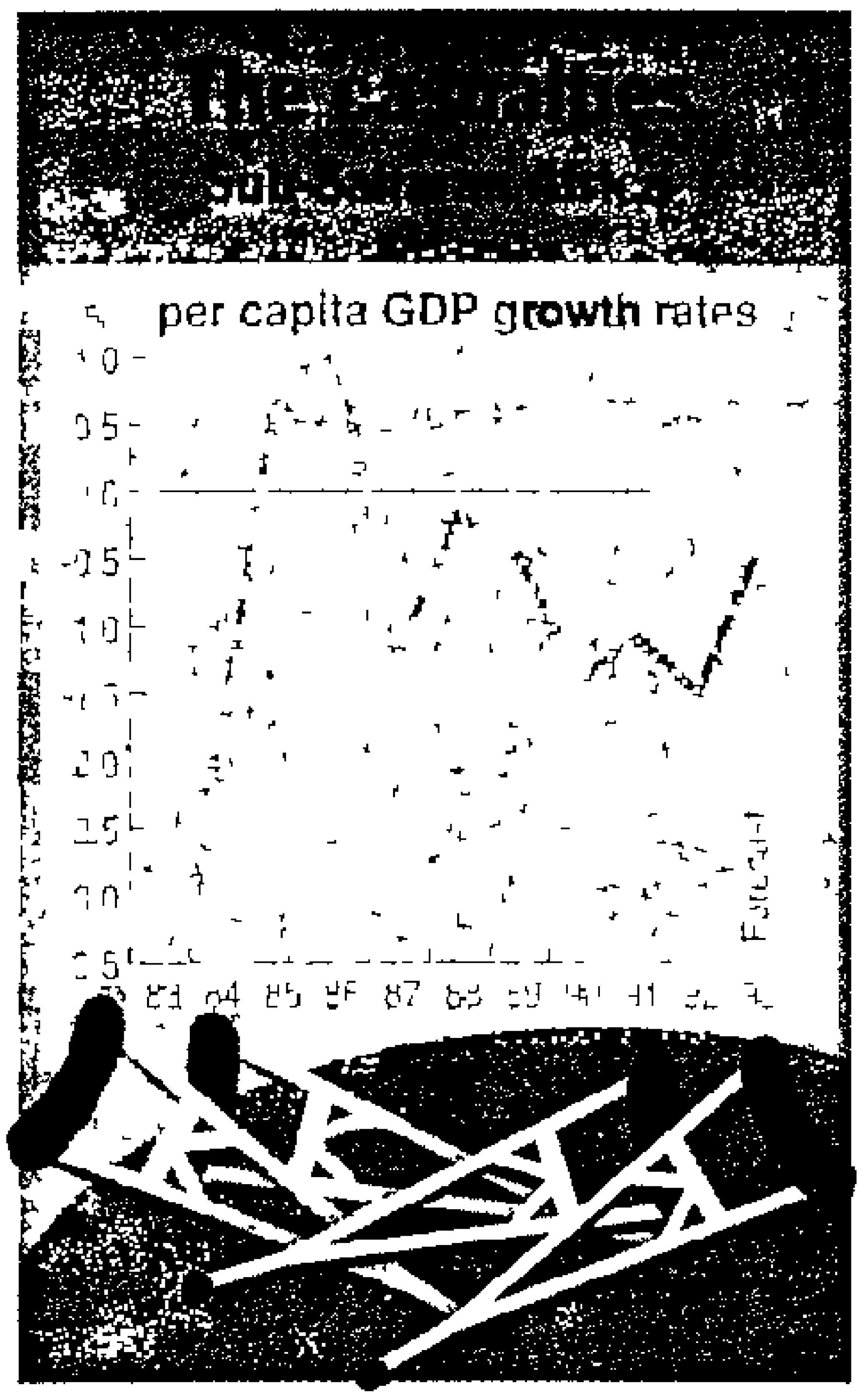
That said, the donors are skating on thin ice when they castigate Kenya, despite its progress in deregulating, liberalising and privatising its economy, but praise Zimbabwe, where the budget is out of control, an overvalued exchange rate is maintained by tight exchange controls and privatisation has not even started

Third, "financial sanctions" of the kind now being used against Kenya will probably work — eventually But by the time that Moi or his successor returns to the Fund, cap in hand, in 1994/1995, Kenya will have defaulted on its foreign loans, its economic and political environment will have deteriorated and the donors will have an even bigger mess to clear up than at present Ultimately, the donor community will have a larger bill to settle — just as it is today picking up the tab in Somalia and, at some stage, in Zaire

Look at Zambia it accumulated more than $1,4bn in arrears, mainly to the IMF and World Bank This will now be repaid largely from aid provided by donors, since the Washington multilaterals are not allowed to reschedule, let alone forgive debt This is a game played only by losers

Prescription is more difficult than diagnosis, while efficient implementation is even harder to achieve Structural adjustment has failed in Africa, largely because implementation has been woefully inadequate. Not only has the political commitment been shortlived — with the shining exception of Ghana's President Rawlings, who has stuck to the task for more than 10 years now — but governments lack the institutional capacity to make reforms work

Two shortcomings explain much of the failure of structural adjustment — large budget deficits and high levels of protection. The two are interlinked Fiscal deficits spill over into excessive money-supply growth, high inflation, a depreciating currency and



the use of various protective exchange controls to try and stabilise the exchange rate.

African governments do spend wastefully, but the political difficulties of cutbacks cannot be ignored Invariably, the bulk of the spending is on education, the military, debt-service and subsidies, including subventions to parastatals Nigeria's petrol subsidy costs the country $2,5bn a year (8% of GDP)

And government and parastatals are invariably overmanned and civil servants poorly paid The result is widespread moonlighting, endemic corruption and weak policy implementation. What is needed is far-reaching culture change, which will take decades to achieve, rather than the short-lived fiscal restraint demanded by the IMF

But if poor implementation is the main reason why reform is not working, the reluctance of private enterprise to invest comes a close second Even in Ghana's case, success is strictly relative Exports are lower now than in 1989/1990, despite strong growth in gold production; and while real GDP has been growing at more than 5% a year for a decade, this is strongly reliant on aid inflows averaging close on $1bn a year. Without the aid, growth would be much slower, but how long can donors continue to fill the finance gap?

The fact that even after a decade of economic reform, Ghana has attracted little private foreign investment outside goldmining, gives the lie to IMF/World Bank structural adjustment programmes that posit increased investment in the second or third year of reform

A related problem is that of adjustment fatigue Most African countries undergoing adjustment have experienced not just reduced spending on social services like health and education, but falling real incomes and stagnant or declining employment The United Nations Industrial Development Organisation (Unido) reports that 30 of the 45-odd sub-Saharan countries, including SA, have moved down the world income table between 1970 and 1990

It is hardly surprising that voters throughout the continent see IMF reform as "pain without gain"

Small wonder then that political commitment is lacking None of the presidential contenders in June's Nigerian presidential elections have come out in favour of structural adjustment The donors are partly to blame here, too They have promised too much too soon, allowing governments and voters to believe that structural change is a quick-fix process lasting three to five years

The truth is that even a success story such as Ghana — now in its 12th year of reform — will need continued foreign aid into the next century

There is a cautionary tale in all this for SA. The slippery slope to economic decline is lubricated with foreign aid and concessional loans from the Bank and Fund Countries that retain their autonomy, growing by way of trade and private foreign investment, rather than stagnating into dependence on aid and IMF standby loans, are able to keep their economic sovereignty and freedom for manoeuvre

They can avoid becoming laboratory experiments for youthful Washington economic theorists, many of whom would not know a market force if they met it in the street.

This is not to decry World Bank project loans — as distinct from policy lending with its conditionalities — nor bridging finance from the IMF to see a country through a temporary balance of payments or liquidity crisis It is protracted reliance on aid that comes with a health warning Only one African country — Mauritius — has succeeded in completing a structural adjustment programme and dispensing with policy loans altogether

For the rest of the region, those who have slipped into the poverty net have found it impossible to get out The fact is that the donors have — unintentionally — created aid-addiction of a kind and on a scale which they simply cannot afford

Worse still, they know that their showdown with Nairobi is tactical, not strategic Moi and the next presidents of Nigeria and the Ivory Coast will all be back wanting more — just when there will be even less to go around.

Sooner rather than later something will have to give Given the shared failure of African governments and the donors to make a success of aid-funded reforms, those who plead for more aid are on weak ground.

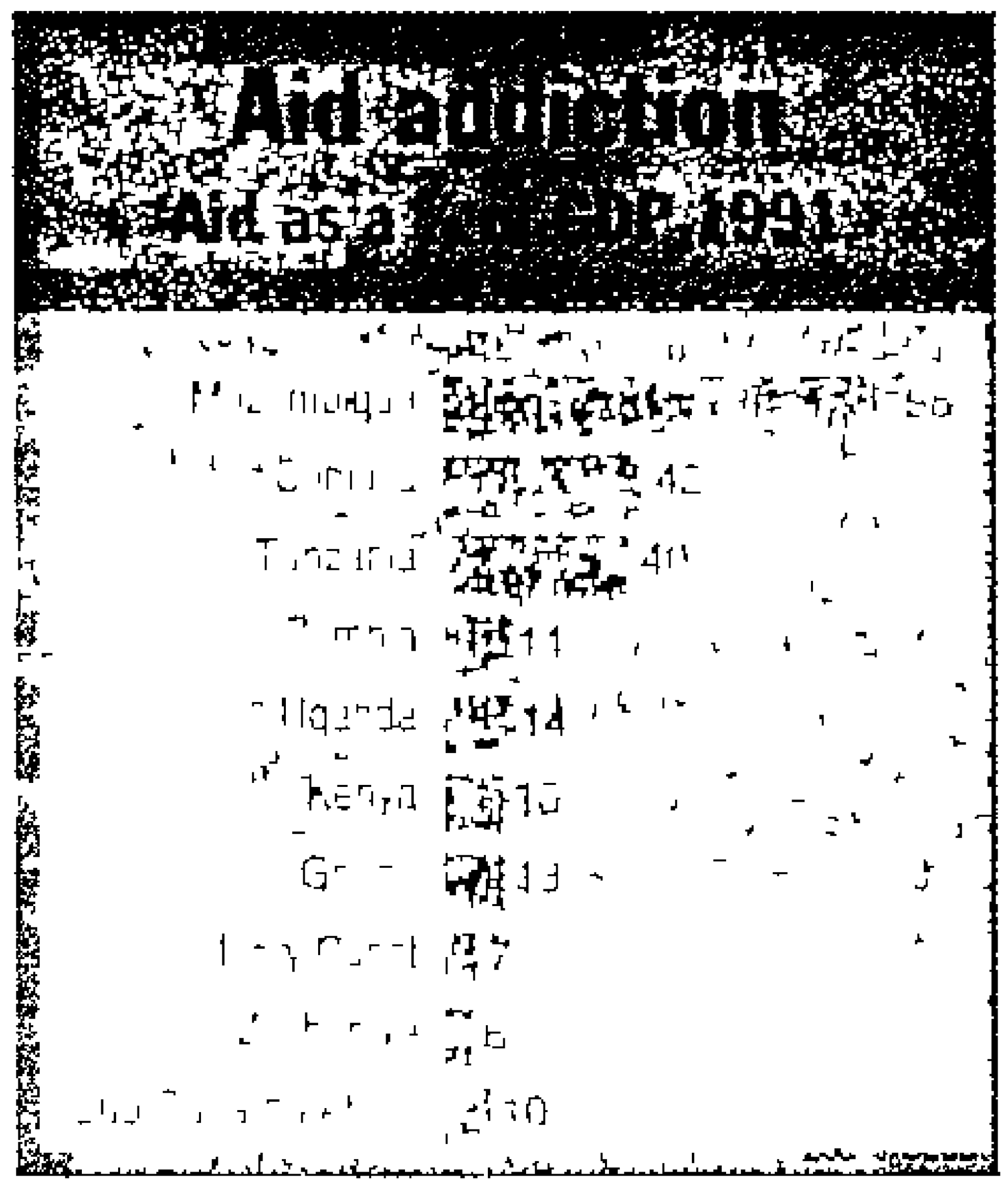
The IMF and the Bank must rethink They, too, need greater openness and transparency, had they come clean about Kenya, Zambia and Nigeria earlier, they could have forestalled at least some of their subsequent difficulties But it is hard to resist the temptation to tell the client what he wants to hear rather than the truth.

At last December's donor group meeting at which more than $1bn in new aid was pledged for Zimbabwe, the World Bank "omitted" to tell the donors that its client was breaking its budget to the point where the deficit this year will be at least 13% of GDP instead of the Bank forecast of 9,5%.

It is also clear that one obstacle to private-sector investment in Africa is the lack of reliable economic data The Bank and Fund have an unrivalled data base, knowing more than the governments they advise It is vital that this data be made public to ensure a more open, better-informed debate In SA, by publishing an IMF report, Derek Keys has set an example other African governments would do well to follow

Ultimately, there is no serious alternative to structural adjustment Governments simply cannot live beyond their means indefinitely Yet sadly, by fostering aid-addiction, refusing to come clean until too late and withholding vital information from those in the media, the business and investment community and opposition politicians who might force change, the IMF and Bank have played into the hands of their often recalcitrant clients

Africa has only itself to blame for many of its economic difficulties But the IMF, World Bank and donors generally are contributing to this failure by publicly backing



governments and policies that they privately condemn Only when, as in Zambia in 1988 and Kenya today, their patience is finally exhausted do the donors come out into the open and tell the truth — by which time it is too late

This is the real lesson of Moi's abortive attempt to go it alone — a policy that, as in Zambia, will end in tears There will be repeat performances elsewhere in the region unless and until the Bank and Fund sfiffen their backbones and practise what they preach about transparency and accountability The patient — the African man and woman in the street — has the right to know what the IMF doctor is prescribing and why it isn't working ■

Asian economic growth still highest in the world — fund

BIDAY 27/4/93.

WASHINGTON — Asian economies grew almost 8% in 1992, partly thanks to a steep rise in China's growth rate, and the region would remain the world's fastest growing this year, the IMF said yesterday.

Asian economies grew 7,9% in 1992, against overall world economic growth of just 1,8%, the IMF said in its World Economic Outlook.

"A dramatic rise in China's growth rate in 1992, owing to strong increases in fixed investment, contributed to a substantial increase in regional trade and growth," it said

China's economy grew 12,8% in 1992, and it was expected to be Asia's fastest growing economy again this year, with GDP growth of 8,5%.

China's export share to Asia rose from 39% in 1985 to 57% in 1991, but the report warned that the boost in economic activity in 1991-92 "has led to a renewed risk of overheating that, if not contained, could lead to macroeconomic instability".

The report paid tribute to sound financial policies and structural reforms in India, Bangladesh and Pakistan, but added that concerns about capacity constraints and overheating might require financial restraints in several countries.

Thailand was expected to see its economy grow 7,8% this year after 7,5% in 1992, the sharpest in the region after China, followed by Taiwan with 6,9%, up from 6,4% in 1992

The slowest growth in 1993 in Asia would be in the Philippines at 3,1%, but this is a marked improvement compared to the -0,3% of 1992

India's growth rate would rise to 4,6% this year from 4,0% in 1992, while that of Pakistan would fall to 4,9% from 5,8 in 1992, the report said.

South Korea's growth rate was forecast to rise to 6,0% from 4,7% in 1992, while that of Indonesia would remain stable at 6,0%. — Sapa-AFP.

BUSINESS

IMF support preferable to its loans, says ANC

B/DAY 27/4/93

156

LINDA ENSOR

CAPE TOWN — An ANC-government would prefer IMF endorsement of its economic policies to loans which circumscribed its decision-making, ANC economics spokesman Trevor Manuel said.

Manuel, head of the ANC's economics department, said in an interview at the weekend that IMF sanction of ANC policies would open the door to foreign investment in SA

IMF African department assistant director Leslie Lipschitz — who is leading an IMF delegation to SA — confirmed that for several countries an IMF loan was less important than an IMF endorsement of policies, the latter would usually improve access to international capital markets

Manuel believed SA economists had a great responsibility to convince the IMF and World Bank that their country had the capacity both to restructure the economy and to own the process Any economic programme for SA should be drawn up by South Africans, tailored specifically to SA conditions and should not be imposed by the IMF

This view was supported by Lipschitz, who emphasised that government commitment to implementing a restructuring package — as well as its success — was directly related to government having made a substantial input in devising it

Where this was not the case governments had usually lacked the political will to implement the programme, especially if it threatened vested interests and was unpopular for curtailing consumption expenditure, he said

"Good governance is needed for effective policies," Lipschitz said

While the IMF economists would check the technical details and fine-tune the model they would not seek to impose their own views on an applicant country

Equally important, Lipschitz said, was for the package to have broad support within the society Without a reasonable degree of consensus a strategy for economic reconstruction was doomed to fail

Regarding an IMF loan to SA, Lipschitz said the fundamental problem was to ensure the continuity of the programme over a number of years This would require a stable government based on consensus and therefore any loans would probably be difficult to envisage before a general election

On technical grounds SA would qualify for a loan despite the fact that it had run surpluses on its current account on the balance of payments since 1985 The IMF considered this as abnormal at SA's stage of development and saw it resulting from the debt standstill which had dampened domestic demand so that foreign debt could be repaid

Without this constraint, SA should ideally run a current account deficit of perhaps 1%-2%, and thus be entitled to IMF assistance Once the political situation normalised, the characteristic balance of payments problems would emerge, Lipschitz said

The IMF saw unemployment in SA as being a major problem — it would be difficult to envisage a durable economic restructuring programme that did not address this question

High priority would also have to be given to generating savings to finance investment and the programme would have to aim at raising labour productivity, eliminating the import bias in the economy, stimulating exports and firming up confidence to allow a reversion to normal inventory levels

Lipschitz noted that one of the advantages of SA being included in the Africa department of the IMF was that the IMF could now examine the problems of the entire southern African region holistically SA was viewed as a vital nexus for the growth of the region

BUSINESS

World's recovery heads G-7 agenda

BDM 29/4/93

WASHINGTON — The US and its rich allies have been put on the spot to come up with a strategy for reviving the global economy and helping poor nations as the world's chief economic forum got under way yesterday

IMF MD Michel Camdessus said it was that the Group of Seven (G-7) industrial nations worked together to boost growth and set the stage for a sustained recovery in the struggling world economy

"It is now indispensable, it is possible and I have no doubts that the ministers will find the determination to send a strong message of confidence to the world," he told reporters ahead of the semi-annual meeting of the IMF and the World Bank.

Policymakers from the G-7 nations — Britain, Canada, France, Germany, Italy, Japan and the US — meet here this week to explore ways to do just that.

The US cleared the way for the meeting to concentrate on global economic growth by acting on Tuesday to defuse a potentially damaging currency dispute with Japan.

US Treasury Secretary Lloyd Bensten, seeking to dispel what he called misperceptions about US policy, signalled that Washington would not welcome any further rise of the high-flying Japanese yen

Those comments — backed by US purchases of dollars for yen on the New York foreign exchange market — came as welcome news for Tokyo, which has voiced fears that its surging currency will hurt the fragile domestic economy

"The major challenge facing the G-7 is to restore growth and to ensure that the composition of growth in the US and its major trading partners contributes to the reduction of (trade) imbalances," US Treasury Under-Secretary Lawrence Summers said

Faster economic growth would help not only the rich nations of the G-7. It would also be good for the world's poorest nations in Africa and Asia and for Russia and the other former republics of the Soviet Union

World Bank president Lewis Preston is expected to make an impassioned plea on behalf of the world's poor at the forum

Developing nations on the whole have fared well during the past year, reaping the benefits of tough reforms despite sluggish growth in the industrial world.

Russia and the other former Soviet republics also face tough going on the economic front The IMF expects them to suffer a steep, 12% drop in output this year and inflation of about 600%

Treasury Under-Secretary Summers urged Russian leader Boris Yeltsin to push ahead with his country's painful economic reforms now, following his victory in Sunday's referendum on his rule

"It is our hope President Yeltsin and his government will seize this moment to implement bold measures to move toward a market economy," he said — Sapa-Reuter

Unions want more say in IMF reforms

W/Mail 30/4-6/5/93

By ANDREW MELDRUM Harare

CAN Africa's trade unions help pull the continent out of its severe economic decline? A resounding "Yes" to that question was given in Harare last month where 150 union leaders from 40 African countries met European union leaders, the World Bank and the International Monetary Fund (IMF).

The free market structural adjustment programmes designed by the World Bank and the IMF have been embraced by 29 African countries and the challenge facing unions is to make sure they are at the cutting edge of economic reform.

South Africa is already negotiating with those powerful multilateral financial institutions and a local programme cannot be far off.

Somewhat surprisingly, unionists at the Harare meeting did not reject structural adjustment outright. Kenya, which recently suspended its structural adjustment programme, was not held up as a hero or a model for other African countries

"I think most African unionists realise that (president Daniel arap) Moi pulled out of structural adjustment because it threatened his vested interests," said an African economist. "Most realise that it is a mistake that will cause more harm to the Kenyan working people."

Rather than debating the need for structural adjustment, the African labour leaders in Harare made suggetions as to how the economic programmes could be improved. They called for more direct involvement in the design and implementation of the painful economic measures

"It's unfortunate that Ghana's structural adjustment programme does not have any trade union input We would advise the government to slow down the pace of adjustment," said Ghana Trades Union Congress secreatary general Christian Ageyi

Ghana's structural adjustment began in 1983 and is held up by many as one of the more successful in Africa. "It is true that Ghana has achieved economic growth, but the working people are worse off," said Ageyi "Public spending was reduced and many people, particularly in the civil service, were retrenched. A massive devaluation was carried out, reducing the cedi from two to the US dollar to 662 to the US dollar This caused inflation and has made our cost of living very high Poverty has increased."

The IMF-World Bank remedy has been a bit of a bitter pill to swallow "There are few signs that structural adjustment programmes are bringing economic recovery in African countries where they are being implemented," concluded a comprehensive report by the International Confederation of Free Trade Unions (ICFTU)

The report warns that continuing economic hardship may undermine Africa's fledgling democracies and result in a return of more authoritarian regimes

High priests and IMF gnomes

WMail 30/4 - 6/5/93 -

An economic 'Council of Trent' gathered in the bushveld this week to discuss South Africa's financial future. **REG RUMNEY** *looked in on the earnest discussions* (156)

THE assorted rare birds of the bushveld near Warmbaths were greeted by a strange sight this week: delegates to South Africa's most high-powered economics conference this year ambling lopsidedly around Mabula Game Lodge

The reason for their strange gait were the many conference papers weighing down each delegate to the South Africa's International Economic Relations in the 1990s Conference, arranged by the Institute for a Democratic Alternative for South Africa and the Aspen Institute

Each set of papers seemed to have occasioned the felling of at least one small tree, and contained enough economic jargon and detail to numb the average mind.

The delegates comprised a veritable gathering of who's who in the economics world: bankers, both local and international, influential academic and private-sector economists, a businessman or two, and representatives of the economic policy departments of the African National Congress and the Pan Africanist Congress.

The strategic economic bosberaad was opened on Tuesday night by the ANC's department of economic planning head, Trevor Manuel, who read the speech which was to be delivered by ANC president Nelson Mandela, who had to pull out at the last minute.

The conference itself focused on issues such as the role of the World Bank and the International Monetary Fund (IMF) in post-apartheid South Africa and trade policy

Not only are such issues unlikely to fire public imagination, but it was apparent from the conference that their complexity is as awesome as the probable ill-effects of unwise decisions in these areas by the policy-makers.

Listening, for instance, to the delegates discussing the ins and outs of the role of the World Bank and the IMF in one of the working groups was reminiscent of nothing so much as the debates of the monks in Umberto Eco's *The Name of the Rose.*

Clearly, something important is at stake here. It could lead, if not to economic excommunication for heresy, at least to a sort of shunning by the world economic community.

It was remarked that what the Bank and the IMF think carries clout with foreign lenders and investors Their stamp of approval is as important as their loans. But between the World Bank and IMF representatives and those free-market-endorsing supporters in one camp, and in the other camp the rather more unworldy, mostly academic critics of the Bank's economics and the way it operates there appeared to be a big conceptual gulf.

The two camps engaged in a carefully phrased and extremely polite verbal battle midweek about what the two institutions did, how and why. And they respectfully disagreed on just about everything.

Only one thing is absolutely certain: South Africa is eligible, despite its high per capita income, for World Bank loans — but not now

The World Bank's Peter Fallon and the IMF's Leslie Lipschitz painted a picture of the two institutions as waiting patiently in the wings to be asked by a democratic government to assist in the economy The Bank and the IMF did not prescribe but simply suggested policy, was their line

The Institute for African Alternatives' Ben Turok expressed concern about the Bank's dismal record in Africa, the bad effect of its loans in the developing world, and the conditions both institutions attach to lending for structural adjustment. The non-transparent way both institutions operated bypassed democratic processes, he suggested

Again, both Fallon and Lipschitz denied they were prescriptive and insisted they only provided solutions which governments would anyway have to come up with

It was left to Institute for International Economics senior fellow John Williamson to suggest that South Africa should not count on foreign capital inflows from either the World Bank or international capital markets Few countries have financed their growth exclusively from foreign capital inflows, he remarked.

That seems sensible enough However, like the monks' tortuous arguments about whether Jesus owned his clothes, the debates about the policies that the Bank and the IMF "suggest" will continue to attract controversy and earnest discussion, especially at conferences

/ORLD

IMF gold sales well worth considering, says Lamont

B/DAY 3/5/93 156

WASHINGTON — British Chancellor of the Exchequer Norman Lamont told the joint World Bank-IMF development committee at the weekend that modest sales from the IMF's gold reserves could be used to fund a successor to the expiring concessional loan facility.

"The idea of modest IMF gold sales is well worth considering," Lamont said in remarks prepared for delivery to the committee on Saturday.

Lamont first broached the gold sales idea on Friday, suggesting the IMF might sell 10% or 15% of its 101-million ounces of gold to help pay for a successor to the enhanced structural adjustment facility (ESAF), which expires in November.

ESAF was created in 1987 to provide funding to the world's poorest nations at rates well below market levels About 75 countries are currently eligible for funding from the facility, which charges annually interest of only 0,5%

"If a successor to the ESAF is to be agreed on, it may well be necessary to look for new sources of financing," Lamont told the committee

Lamont's proposal has received a cautious welcome by some delegates attending a series of meetings at the IMF. Several indicated that it was an option that merited examination along with others. But they pointed out that Lamont's suggestion lacked detail and said there has been no discussion of it.

The US has "no position" on selling some gold owned by the IMF, a Treasury official said Friday.

IMF MD Michel Camdessus said he opposed the sale of the institution's gold as a means of funding a concessional loan facility.

Camdessus, speaking to reporters after the meeting of the IMF's policy-making interim committee, said the fund would look at all options regarding the ESAF, but said that personally he was against the use of the gold reserves.

"My basic motivation is that the gold of the fund is the strength of this institution and we have to think before allocating it," he said.

He also said that given the uncertainties of future demand on the fund's reserves he did not believe it was appropriate to liquidate its gold at this time.

Some monetary officials pointed out that this was not the first time that the idea of selling off some of the IMF's gold stock had been mooted.

Meanwhile, the World Bank-IMF's joint development committee has called for a rapid increase in private sector investment in developing countries

"Private foreign flows have been largely concentrated in about 12 countries," Ricardo Hausmann, the committee's Venezuelan chairman, told a new conference The committee called in its communiqué for a rapid increase in this number.

"A high level of investment in the private sector is important to sustainable economic growth in developing countries," the communiqué said

It said host countries bore the primary responsibility for attracting this investment, but said industrial countries and international financial institutions had to do all they could to lower barriers to private sector flows It also asked for increased official aid to developing countries, registering its concern about what it called a recent stagnation

The committee expressed its concern about the "continued delays and risk of breakdown" in the protracted Uruguay Round of world trade talks and called for a conclusion by the end of 1993 — AP-DJ

B/DAY 3/5/93

Quicker cash for Russia

WASHINGTON — Russia could receive its first disbursement from the IMF's new systemic transformation facility (STF) by June, IMF MD Michel Camdessus said on Friday 156

Camdessus, speaking to reporters after the IMF's interim committee meeting, said that "June could be the month" for the first disbursement 239

Under terms of the STF, Russia can draw up to $3bn from the credit in two equal-sized disbursements

The STF was created in response to the need for a faster disbursing credit facility for nations moving away from central planning to market economies

Meanwhile, Russian Deputy Prime Minister Alexander Shokhin said on Saturday the Russian government had reached agreement with the US over allocations from the Food for Progress grain programme

"We agreed on all important aspects" at talks with US officials Friday, Shokhin told reporters at a meeting of the World Bank-IMF's development committee — AP-DJ

Star 6/5/93

ANC rejects call to borrow

156

By Paul Bell

The ANC will not be party to any applications to borrow from the World Bank or International Monetary Fund (IMF) any time soon — despite being urged by the United States government to do so immediately

The organisation, looking to elections within a year, remains concerned that premature applications for funding by South Africa could see borrowings from the Bretton Woods institutions (as the World Bank and the IMF are collectively known) undermining a future ANC government's freedom of economic decision-making, as well as being wasted by what it regards as the inefficiencies of the country's present economic management.

ANC economics chief Trevor Manuel said this yesterday in response to advice last week from US ambassador Princeton Lyman that South Africa should immediately invite the World Bank to develop a portfolio of project proposals

Lyman, obliquely addressing the ANC, said it would take the bank between 18 months and two years to move from proposals to implementation "That means that unless the bank begins now, a newly elected government will be faced with as much as two years' wait before being able to utilise this assistance for the pressing needs of the population," he said.

But Manuel said the ANC was not prepared to consider any binding arrangements with the Bretton Woods institutions before the introduction of democratic government in South Africa

"The integrity of domestic policy formulation must be supreme in a democratic dispensation," he said. "There are civil servants who might consider it in their short-term interests to borrow from the World Bank "

IMF predicts another terrible year

156

7/5 - 13/5/93

By Alex Brummer

THE global economy faces another tortuous year in 1993, threatened by slowdown in two of its locomotive economies, Japan and Germany, and hyperinflation and slump inside the former Soviet Union The best hope for recovery, according to the spring edition of the International Monetary Fund's World Economic Outlook, is stronger growth in North America, but the IMF economists doubt whether this will be strong enough

In one of its gloomiest reports in years, the IMF describes the industrial countries as beset by "balance sheet restructuring, persistently high short-term real interest rates, considerable financial tensions and depressed consumer and business confidence"

The IMF expects growth in industrial countries to be a modest 1 7 per cent this year — a sharp cut from its last forecast, in October. It now appears that recovery, except in North America and Britain, has been postponed until 1994, when the industial economies will see 2 9 per cent growth

The IMF economists blame the failure of the western economies to implement key elements of medium term strategy, notably reduction of fiscal deficits, for the stubbornness of the West's financial difficulties

It believes that labour market policies "have been unsuccessful in addressing persistently high unemployment, especially in Europe"

Much of the venom in the assessment appears to be reserved for the European Community countries, particularly Germany. The economists argue that despite recent cuts in short-term German interest rates monetary conditions remain tight in most EC countries This, it believes, has been exacerbated by "substantial interest rate differentials relative to Germany, associated with recent exchange market turbulence" The IMF, not known for its monetary indiscipline, suggests that the weakness of the German economy would justify further cuts in interest rates

For Britain, as is being borne out by recent economic data, the IMF thinks that lower interest rates together with the substantial loosening of policy which came with sterling's departure from the European exchange rate mechanism last autumn means a good recovery But the IMF economists believe that the recovery will be short-lived unless the Government can put the lid on inflation

This means the adoption of further tax measures in the autumn Budget and "resistance" to further interest rate cuts

On European monetary union, it argues that the currency disruption which saw the exchange rate mechanism torn asunder last year demonstrates that if the ERM is to work policy co-ordination must be stepped up

The IMF is not any more confident about Japanese economic policies It suggests that despite fiscal packages in August 1992 and last month growth will be stuck at 1 3 per cent this year, which is 2 5 percentage points less than the IMF predicted in October According to the IMF staff economists, the most recent package is the equivalent of 2 75 per cent of gross domestic product The IMF thinks that Tokyo will need to keep a grip on its budget as growth resumes

While the IMF economists applaud the Czech Republic, Slovakia and Hungary and Poland on the advances they have made on reform, the former Soviet Union is clearly regarded as a serious laggard It predicts that after the calamitous 18 5 per cent drop in output in 1992, there will be a further 11 8 per cent cut this year

Indeed, output will still be falling in 1994, if at a lower pace of 3 5 per cent Nevertheless, the IMF hopes that if the economic reform programme were to be followed through, many of the countries of the former Soviet Union, if not Russia itself, could experience sharply falling inflation in 1993 and a turnround by the middle of the decade

The main enemy there at present is inflation, the IMF argues In Russia, inflation soared in the final quarter of 1992 to about 25 per cent a month, or 1,500 per cent a year

Among the main reasons for this desperate inflation problem, according to the IMF, is the behaviour of the the Central Bank of Russia. Under its chief, Viktor Gerashchenko, there has been an explosion of lending to state enterprises

This grim economic background and the failure of the authorities to gain control of the central bank demonstrate the magnitude of the task facing President Yeltsin, despite the vote of confidence for reforms in last week's referendum. He can, however, expect the IMF and World Bank to take decisions which will begin to speed up aid flows — even if reforms have not been fully implemented

Time for devising a development agenda is slipping away

BDay 10/5/93.

WITNEY SCHNEIDMAN

156

SOUTH Africa will have a unique opportunity to attract foreign capital following the establishment of the transitional executive council Contrary to the preferences of many South Africans, however, this capital will be in the form of donor assistance for the upliftment of the black majority, and the nation will have to have its own set of development priorities to take full advantage of this opportunity

Since the end of the Cold War, donors have been sympathetic to African nations at critical points in their transition to democratic rule. Bilateral and multilateral donors pledged nearly $1bn in aid and debt rescheduling to Mozambique in December 1992, for example, two months after a peace treaty was signed ending 16 years of civil war.

Similar support most likely will be offered to SA once a transitional government is in place and a date for the country's first non-racial elections has been set. Western donors are deliberating on convening a consultative group meeting — a gathering of donors customarily chaired by the World Bank — shortly after the transitional executive committee is established. Such a meeting could conceivably generate pledges of $1bn in development assistance alone US State Department officials have indicated that SA's development needs will be mentioned prominently in the communiqué that is to be issued following the July economic summit in Tokyo of the Group of Seven industrial nations

South Africa's ability to take advantage of what inevitably will be a narrow window of opportunity will depend in large measure on whether the government, leading political organisations from across the spectrum, and major non-governmental organisations can formulate a national agenda for social and economic development in a post-apartheid era To date, there has been apparent reluctance to move ahead in this most critical area

Given the extraordinary energies that have been devoted to constitutional negotiations and, more recently, a new macroeconomic framework, it is understandable that little attention has been given to prioritising the country's development needs It is also a reality that foreign aid generates little enthusiasm in SA

There are those in the private sector as well as government who reject the notion that SA is a developing nation in need of foreign aid. These individuals contend that SA is capable of handling its own development problems.

Others, including officials in the ANC, oppose development aid because it will add to the country's debt burden They also regard development assistance from the World Bank as the first step on the slippery slope towards a World Bank-IMF structural adjustment programme. And there are South Africans across the political spectrum who harbour suspicions of many Western institutions, especially aid agencies, and view external assistance as a sugar-coated form of foreign interference into the country's internal affairs.

In fact, SA has very real development needs in virtually every sector. It will be impossible for any one agency — domestic or external — to redress the inequities and shortcomings in education, health, land, urban infrastructure and skills training. A new democratic government will be under pressure to initiate a policy of redistribution and to improve quickly the standard of living of black South Africans It is unlikely that a new majority-led government will have the financial or technical capacity to respond immediately on its own to pent up expectations in the townships and rural areas

SA's debt problems are with commercial banks, not donor agencies or multilateral institutions. The costs of development assistance will be minimal and most of the bilateral support is likely to be extended on a grant or concessional basis.

Furthermore, loans from the multilateral institutions such as the World Bank will be paid for by the government from tax revenues generated from corporations, businesses, and individual taxpayers who have prospered over the last 45 years The beneficiaries of the assistance, if propertly administered, will be those who have been marginalised the most by apartheid

Donor assistance will not make a World Bank-sponsored structural adjustment programme inevitable As the ANC's economic policy guidelines and the government's normative economic model make clear, there has to be far-reaching fiscal, monetary, industrial and tariff adjustments in the country's macroeconomic framework to revive growth and to achieve sustainable and equitable development. The question is whether a new government will have the discipline and determination to accomplish the restructuring on its own, or whether it will be compelled to rely on an international agency such as the World Bank or the IMF.

A genuine concern is that the World Bank's development objectives will become SA's, thus denying a new government autonomy in setting its own agenda. This will not happen if the post-apartheid government develops its own comprehensive programme for national development. A new government with its own set of priorities will have a firm basis from which to negotiate as an equal party on the terms of all development assistance with the World Bank, the consultative group and every other donor.

South Africans have to provide guidance to international donors if the impact of the external assistance that will be available for social and economic development is to be maximised This will be difficult to do without a blueprint based on a national consensus

Given the size of SA's economy, a very generous aid package will make up only a small portion of the country's GDP If such a programme is designed properly, external assistance could provide partnership opportunities for private investors, creating a catalyst for foreign and domestic investment. In the short term, a coherent response by South Africans to the donor community will send an encouraging signal to potential foreign investors

A persistent problem with donor assistance is the length of time that often transpires between the design of an aid programme and its implementation While donor agencies are often paralysed by bureaucratic bottlenecks, a lack of "absorptive capacity" in recipient countries also contributes significantly to delays in the disbursement of funds and the implementation of programmes Much of the $24bn that was promised to Russia last year by the G-7, for example, was never disbursed because of the political and bureaucratic disarray in that country A national agenda for development would help focus donors on SA's most pressing needs and accelerate the delivery of promised assistance.

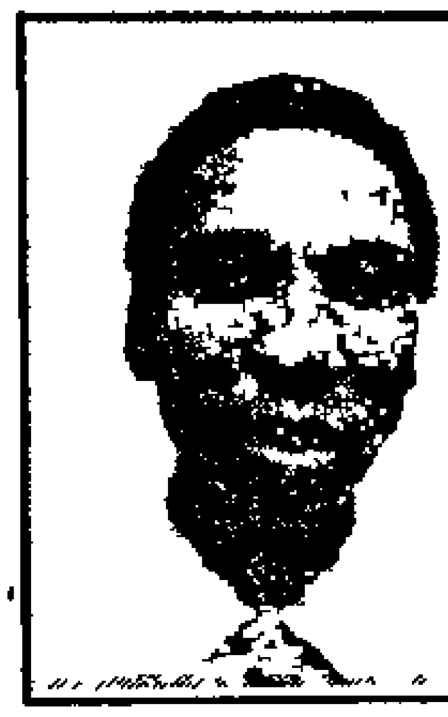
Indications are that the international community is prepared to make a major effort to support the transition to a post-apartheid government SA, nevertheless, will be competing with a growing number of claimants for a relatively fixed — if not shrinking — number of aid dollars In order to decide which recipients to support, donors are likely to make assistance increasingly conditional. Criteria such as poverty reduction, environmental protection, reduced military spending, and efficient economic management, not to mention respect for human rights and democratic government will determine which countries receive support.

The first consultative group meeting on SA is likely to mobilise the greatest amount of financial assistance with the fewest conditions This window of opportunity could close prematurely unless steps are taken to engage the donor community

□ **Schneidman, a former consultant to the World Bank on SA, is vice-president of Samuels International Associates, an international consulting firm based in Washington.**

focus on the economy

The International Monetary Fund and the World bank have been accused of a conspiracy of silence regarding their agenda for South Africa. Economist Ben Turok told Mzimkulu Malunga that we can make it without them:



A LOCAL ECONOMIST feels there is a "conspiracy of silence" on the real agenda of the International Monetary Fund and World Bank in South Africa

But an official of these institutions say they won't force their policies on this country

"The atmosphere being created in the country is that we should borrow from IMF and World Bank," argues Ben Turok, director of the Institute For African Alternatives

Many in this country — including senior economists — still talk about aid from the IMF and World Bank, "but these are banks, they do not give aid", he says

However, Isaac Sam, an adviser to the World Bank's Southern African department, says the two institutions have no hidden agenda What they have done is to put their proposals on the table and it is up to the South Africans to decide

He says World Bank proposals stem from studies conducted on the South African economy and experiences of other countries where such policies worked

There is consensus in this country that the economy needs restructuring but the debate is on how to go about it

Some, like Turok, advocate a conscious decision to redirect resources to disadvantaged communities and less intervention by the IMF and World Bank in the economy, while others believe there is no alternative to an IMF-led Economic Structural Adjustment Programme

Some believe the country has enough resources to survive "harsh medicine", as ESAP is sometimes called, under the auspices of the IMF and World Bank

"That is what former Tanzanian president Julius Nyerere used to think Robert Mugabe in Zimbabwe once said the same thing as well But just ask them how they feel about these institutions today " argues Turok

156

Skyscraper

He says an economic structural adjustment led by the IMF and World Bank would only benefit the formal sector or "the skyscraper" as he chooses to call it — leaving the majority of the people poor

"Unfortunately, a great majority of commentators in this country have chosen a skyscraper growth path," he argues

On the other hand Sam says the IMF and World Bank, contrary to popular belief, do not "push" countries to take up their loans They only mobilise resources to enable poor countries to develop, arguing that it is amazing that only Africans complain while Asians and Latin Americans are willing to go along with the conditions laid down by the fund and the bank

A large part of the IMF and World Bank's income does not come from the debt repayments

Ben Turok ... believes there is a conspiracy.

Sowetan 11/5/93

by developing countries, says Sam, though he declines to specify where the money comes from, saying that it warrants a subject on its own

In addition to the mobilisation of resources, these institutions act as "catalysts" to build investor confidence in a particular country by analysing economic aspects of countries

"ESAP is saying nothing other than you are living beyond your means, therefore you have to structure," he says

If countries apply for commercial loans from banks internationally, the latter tend to depend on the attitude of the IMF to determine the creditworthiness of a country

Critics of these Washington-based institutions say their ESAPs are nothing else than a carbon copy of each other

Social services become the first victims together with civil services in the midst of huge spending cuts by the state

Though the IMF and World Bank officials are quick to point out the graduates of "harsh medicine" in Asia and Latin America, they are yet to produce a success story in Africa

People have taken to the streets several times in countries like Zambia and Nigeria as food prices and other basic commodities rose and their banknotes became worthless

Hence, the fund and the bank have a negative image on the rest of the continent to an extent that ESAP has been renamed "Ever Suffering African People".

Harsh medicine can dig deep into the coffers of a country For instance, if a person needs to change 100 British pounds (about R500) into Ghanaian cedis, he would probably need a Pick 'n Pay sized plastic bag to carry the money

In Tanzania, for one British pound (about R5) a person gets 1 500 shillings in return

"If you want to know what ESAP has done to Nigeria, just ask one of the taxi drivers," says Turok

However, he feels South Africa still has a chance to avoid ESAP A proper economic policy will redirect resources to areas where they are most needed.

But some officials in the Bank and Fund won't be battered into submission when it comes to defending their policies

"To put blame on the doctor who is trying his best to resuscitate a dying corpse is wrong," argues an official sympathetic to the policies of the IMF and World Bank

Both institutions were established after the second world war The IMF was established to help industrialised countries to fight inflation and stabilise their currencies Its loans are short-term

The World Bank was established to help Europe and Japan to recover from the war, hence the original name International Bank for Reconstruction and Development

After the 1950-60s, when more countries throughout the world gained independence, the World Bank extended its facilities to those states

Today the World Bank Group comprises the IBRD giving loans to countries in which income a person is above $720 a year the International Development Association for poorer countries, the International Finance Corporation, which gives loans to private business and the Multilateral Insurance Guarantee Agency which guarantees funds for private sector investment

The Economist reports there are precious few signs of life getting any better for the 'patients'

Star 11/6/93

Africa wary of swallowing IMF/World Bank medicine

156

AFRICA is the only continent in the poor world where people ended the 1980s worse off than they were at the start. Towards the end of the decade even reluctant converts, like socialist Zimbabwe, swallowed their pride and adopted the pro-market policies devised by the World Bank and the IMF. Three years into the 1990s, signs of life getting better are scarce. Africa's disenchantment with the two Washington institutions is fast turning to outright hostility.

The rudest snub this year has come from Kenya's president, Daniel arap Moi. Last month he reversed the economic reforms he had just introduced and condemned the IMF as "dictatorial", its policies "suicidal".

But the hostility is more widely felt. Angry Zambians protest about the soaring price of maize, their staple food. In Zimbabwe parents complain that they cannot afford the new school fees. Ethiopia's civil servants fume about losing their jobs. IMF and World Bank men are often booed when they talk to African audiences.

The IMF and World Bank are convenient targets. The typical African grumble against them runs thus: from their plush offices in Washington, these institutions make life miserable for Africans, so that African governments can take out loans which they are then unable to repay.

A growing band of countries finds it impossible to borrow a penny without having received the IMF's seal of good housekeeping. To get that they have to adopt tough economic reforms devised by the Terrible Two.

If Africans had plenty of examples of countries that had gone through painful "structural adjustments" and emerged transformed, it might be easier for governments to persuade citizens that the pain was worthwhile. Some Africans have now been "adjusting" for a decade and the evidence of it going right is, at best, patchy.

The model most often cited by development economists is Ghana, which adopted IMF-backed reform in 1983 after its old protectionist ways stifled initiative and brought the economy to its knees.

Ten years on, the economy has finally begun to grow faster than the population. Yet private investment is only trickling in.

After Ghana, the list of successes is made up of a handful of minnows, like Burundi, and island economies, like Mauritius. Most of Africa's giants have disappointed. Kenya, once a prosperous pocket on the continent, is now swamped by triple-digit inflation and mounting debt arrears. A damning report published this month by Oxfam, a British charity that has worked in Africa for 40 years, concludes that structural adjustment has neither restored growth nor eased poverty in Africa.

The gloom is shared by some of the World Bank's own high priests. Great hopes had been pinned to their reforms halting Africa's downward path. Billions of dollars have been pumped into the continent. But the Bank recently published a paper called. "Why structural adjustment has not succeeded in sub-Saharan Africa".

It argued that Africa had hardly benefited from Bank programmes. The Bank has a tradition of self-criticism. But this report was withdrawn, and reissued under a blander title.

Most of the Bank's economists say that Africa's performance has been disappointing not because the gospel is wrong, but because it has not been properly implemented. (Marxists, mind you, say the same thing about communism) Wrenching reforms can be politically awkward. Nigeria has just announced that it will not lift its generous petrol subsidy in June, as it had promised the IMF, out of fear that petrol riots would disrupt elections that month.

The Bank's other defence is that some of its recent studies on Africa suggest that the closing years of the 1980s did indeed see stronger growth and lower inflation in the countries it lent to. But, after 1990, two shocks threw the progress off track: post-Cold War pressures for democracy made governments more cautious about economic reform; and growth was weakened by world recession.

In any case, argues Ishrat Husain, chief economist for Africa at the World Bank, a lot of Africans welcome reform. Farmers now get a decent price for their crop. Yet farmers' voices tend to be drowned out by articulate city-dwellers deprived of subsidies and unable to afford imported goods.

Still, says Husain, "we are learning too". One lesson is that the Bank must modify its expectations in Africa, and stop promising instant results. A second lesson is that a great effort should be made to cushion the poor (who are o[...] women) from the hardships go with adjustment.

Too often, governments fin[...] easier to trim their budgets charging fees at rural clinics schools than by firing soldier[...] well-connected cronies.

Most of all, governments r[...] not feel that the Fund and E[...] have trampled on their [...]vereignty. If a government [...] not feel the reforms are its ow[...] will have little commitmen[...] carrying them out. A more d[...] matic approach can pay off.

Last year, before signing u[...] an IMF deal, Ethiopia's gov[...] ment sent a team to visit e[...] African countries and decide themselves what works [...] they drew up looks remark[...] like any other adjustment [...]gramme. But sensitive treatn[...] by the Fund and the Bank has [...]suaded Ethiopia's governmen[...] believe triumphantly, that it i[...] its own idea. □

Wage pact approved to end German labour battle

BDM 17/5/93

FRANKFURT — The board of the metalworkers' union on Saturday approved a wage pact designed to end a strike and prevent an all-out labour battle that could have further damaged Germany's recession-battered economy

The compromise deal provides for pay raises for workers in eastern Germany that will bring their salaries to par with wages in the west in 1996, two years later than set in a previous plan

Rank-and-file union members will vote on the deal today and tomorrow, and if 25% of them approve the pact, metalworkers and steelworkers in eastern Germany will return to their jobs on Wednesday

Economics Minister Guenter Rexroth welcomed the pact, saying it would give an impulse to the recovery in the east He said the wage agreement came relatively quickly, limiting the damage caused by the strike

Otto Lambsdorff, chairman of the Free Democratic Party, the junior partner in the government coalition, said the pact carried economic risks.

Lambsdorff said no one could predict if the economy would pick up enough by 1996 to be able to afford the pay raises

He said productivity in the east would also have to increase. More than 40 000 workers in eastern Germany have been on strike in the 12-day-old walkout. An additional 80 000 had been set to join them today

The compromise deal was reached Friday after an all-night bargaining session in Dresden between employers and IG Metall, the nation's biggest union

IG Metall's wage commission endorsed the pact on Friday evening

The agreement pledges to raise the eastern workers' pay to the levels of western Germany by July 1996, rather than next year as promised during the euphoria over German reunification. A six-month delay would be possible, if companies showed they were in deep financial trouble

Under the old agreement, east German metalworkers received about DM1 950 a month in base pay before taxes, or 71% of their western colleagues' salary The agreement would boost the worker to DM2 144 a month by December, or 82% of the western wage, the union said. Further increments would take effect until parity was reached in three years — Sapa-AP

NEWS IN BRIEF

Uruguay Round advances

TORONTO — Ministers representing the world's four major trade powers said on Friday they had paved the way for a successful outcome this year of the protracted world trade liberalisation talks known as the Uruguay Round Japanese Trade Minister Yoshiro Mori, US Trade Representative Mickey Kantor, EC Trade Commissioner Sir Leon Brittan and Canadian International Trade Minister Michael Wilson would meet again on June 2 in Paris.

Red Cross blood infected

BERN — The Swiss Red Cross had sent 83 bags of blood products contaminated with the AIDS virus to the US, Saudi Arabia and Greece from 1982 to 1985, spokesman Markus Haechler said on Friday

However, he said it was possible the tainted blood had not been given to anyone because blood had to be used within a month of being donated

187 burned to death

BANGKOK — The official death toll in what is believed to be the world's deadliest factory fire — at a doll factory outside Bangkok last week — stood at 187, with at least 80 still listed as missing, the interior ministry said after a weeklong search was called off at the weekend

UK to probe CD prices

LONDON — Britain's Monopolies and Mergers Commission is to investigate the "rip-off" prices retailers and the record industry are charging for CDs.

REPORTS Sapa-AFP-AP Own Correspondent

Kenya in new deal with Bank, IMF

NAIROBI — President Daniel arap Moi said at the weekend his cash-strapped government had reached agreement with the IMF and World Bank on reforms aimed at revitalising the Kenyan economy (156)

Moi told a goodwill delegation visiting Nairobi that the IMF and Bank had agreed to go on with reform efforts

"We have made a commitment to be strict in the management of the economy after reaching this agreement," Moi's media unit quoted him as saying

Kenya on Friday strengthened its case for the resumption of Western aid by reintroducing economic reforms abolished only two months before

The government said it had reopened retention accounts, which allow exporters to keep hard currency earnings instead of remitting them to the central bank, and ended all controls on imports except prohibited goods BDM 17/5/93

Moi said the government wanted to raise the living standards of all Kenyans and would not let radical reforms hurt them.

When retention accounts were scrapped on March 22, Moi denounced as "suicidal and dictatorial" conditions set by the IMF and the World Bank for reinstatement of key quick disbursing aid of about $40m a month suspended in 1991 to press for economic and political reforms

But faced with shortages of fuel and food and reeling from a cash squeeze, it was clear that Kenya was abandoning the fight against the Western agencies.

Moi said he would ensure that farmers, who contributed 85% of Kenya's economic life, earned a good profit from their input and pledged quick service from state companies that often delayed in paying for delivered produce — Sapa-Reuter

Foreign cash if ANC asks Clinton to return?

Citizen 23/5/93

WHEN Nelson Mandela and State President De Klerk visit the US in July the question of US sanctions and future availability of foreign capital is bound to be high on their list of priorities

They are to be presented with the prestigious Philadelphia Liberty Medal by US President Clinton on July 4 156

One of the most important of the remaining sanctions is the Gramm Amendment which entitles the US to veto any International Monetary Fund loans to SA

It is expected that the US legislators will revoke the Gramm Amendment as soon as the ANC formally makes such a request to the Clinton administration

There is no doubt that full membership of the IMF and access to its loan facilities will be most useful to our country – but make no mistake – the IMF is not a fairy godmother that gives away wealth

In fact, it is an organisation that is resented in many African countries

Some African leaders even accuse it of weakening their national sovereignty because of all the strings attached to aid

They nevertheless remain very dependent on the IMF and other affiliated bodies of the World Bank for financial aid

Another very important point to bear in mind is that SA will not qualify automatically for IMF credits

At the moment we are experiencing a surplus in our physical trade with the rest of the world which will certainly cause raised eyebrows in Washington should we apply for loans

However, this surplus is really the result of sanctions and the need for SA to continually repay old foreign loans

If we turn to the IMF for help to develop our economy there is little doubt that we will receive temporary assistance, although the very fact that we have access to the IMF will probably cause other lenders to be more amenable than at present

The key will be the state of our economy and national political stability Nobody wants to lend to a country which finds itself in a virtual state of civil war

As the ANC's Trevor Manuel puts it "What we need is not really IMF money, but IMF approval of SA economics"

Star 11/5/93

Africa's debt crisis deepens

The bitter medicine prescribed by the donor agencies for Africa's economic ills seems not to be working and the search for alternatives is becoming desperate JOE LATAKGOMO reports for The Star's Africa Service

THE drastic economic reforms demanded by the World Bank and International Monetary Fund have always looked to African countries like kill-or-cure remedies

African governments are now increasingly becoming convinced that the IMF prescriptions are destroying rather than healing their societies.

Yet there seems to be no alternative, no other way to escape from the deadly spiral of debt and decline that has got Africa by the throat

The dilemma has become the dominant economic issue in Africa today

It will again overshadow this year's Organisation of African Unity summit, to be held in Cairo in June

Desperation has set in as many OAU members battle to survive economically

The prescriptions by the IMF and the World Bank, once seen as the panacea for the continent's economic ills, are now thought by many to have failed

At a recent conference of African economic ministers on ways to stem the growing poverty and economic decline in the continent, Layashi Yaker, executive secretary of the United Nations Economic Commission for Africa, said that the

> 'It must be pointed out that it would be unwise to push us any further, beyond what is humanly bearable'
> **OAU secretary-general Salim Ahmed Salim**

commission's report painted a picture of "unmitigated grimness"

The IMF and World Bank programmes, he said, were taking too long to reverse the declining economies

Africa, Yaker said, needed $950 billion (R3 000 billion) in aid in the 1990s to emerge from its cycle of economic ills.

Western aid officials say living standards have fallen consistently and the continent's massive debt burden has grown, despite the granting of $105 billion (R325 billion) of net development assistance in the 1980s

But OAU secretary-general Salim Ahmed Salim told the conference that reforms already made created political and social problems

"We do not know how far we have to travel," he said, "but it must be pointed out that it would be unwise to push us any further, beyond what is humanly bearable"

The poverty of African countries is persistent, remaining constant in a study of per capita incomes between 1960 and 1985 Since then it has deteriorated sharply in spite of intervention through IMF-imposed structural adjustment programmes

In many countries the people have begun asking whether it was still worth taking the medicine after having endured so much pain without much gain

Structural adjustment programmes were designed as a response to African economic crises, which were seen as a product of economic distortions, and this meant that they dealt only with the macro-economic policies and indicators The devastating effects of structural adjustment programmes on living conditions of the majority of the people were not even considered

The British charity Oxfam has criticised the international community for the "lack of vision, political will and moral purpose that is condemning the world's most impoverished region to deepening poverty"

Since 1983, the IMF has drained $3 billion (R10 billion) of resources out of Africa, the organisation says.

The Africa Institute's Africa Debt profile shows that in 1991, debt service as a percentage of exports averaged 32,8 percent, a figure which will forever relegate most African countries to extreme poverty — unless their debts are written off

Debt has doubled to $290 billion (R900 billion) since 1982, despite African countries having paid more than $200 billion (R620 billion) in debt service between 1983 and 1991 — more than the whole debt burden in 1982

UN Secretary-General Boutros Boutros-Ghali has described the continent's debt as a millstone around the neck of

Africa. He has urged the international community to give Africa time so that it 'can prepare for the future without always having its back to the wall and always having to deal with one dreadful emergency after another"

The high hopes that came with independence have disappeared into the mist, those who were poor have become poorer

By 1991, only four African countries could lay claim to be current on their payments on both interest and principal

By 1992, the continent's debt of US$290 billion (R900 billion) was 2,5 times greater than in 1980

The continent's debt liability constitutes approximately 20 percent of the developing world's total debt, according to the African Institute Bulletin

The continent spends four times more on debt servicing than on the provision of health care to its population of 600 million

Recently, Kenya abandoned the programme prescribed by the Washington agencies

For years, this country had been the role model for Africa free-market oriented, competitive. However, in 1991 donors suspended all non-humanitarian aid to the country because of its lack of democracy and economic accountability

Kenyans are now bitter because they believe they have done as much as can be done, or can be expected

They had liberalised foreign exchange regulations, floated their currency, promised tighter monetary policy and devalued their currency

When the IMF said this was not enough President Daniel arap Moi denounced the demands as politically suicidal.

Even the country most scrupulous in taking the IMF prescription, Ghana, has not achieved much success

Since the introduction of its structural adjustment programme in 1983 the economy has showed only slight recovery and Ghanaians are asking whether it was worth the pain

In that first year, 18 000 civil servants were laid off and many more were affected by retrenchment and redeployment policies

All of this led to mass impoverishment as the price of food and other basic services soared

In justifying its prescriptions, the World Bank refers to the success of structural adjustment programmes in countries like South Korea, Indonesia, Mexico and Morocco

But a recent assessment of lending policies concludes that the number of projects with major problems virtually doubled from 11 percent in 1981 to 20 percent 10 years later The number of projects which were unsatisfactory at completion rose to 37 percent.

However, the success of the Asian countries has been largely due to their having better terms of trade because they diversified and reduced their dependence on commodity exports, while most African countries remained one-commodity exporters

During commodity booms countries like Tanzania and Kenya have used the windfall to raise public sector expenditure, increasing public service salaries and starting new capital projects But they have been unable to sustain these when commodity prices fell.

Nigeria's petrol subsidies cost the country $2,5 billion (R8 billion), which is 8 percent of its GDP

Debt arrears are paid from aid provided by donors, since the Washington agencies are not allowed to reschedule, let alone forgive debt, and this has led to reduced social expenditure, and the collapse of services like health and education

> 'Give Africa time so that it can prepare for the future without having to deal with one dreadful emergency after another".
> **UN secretary-general Boutros Boutros-Ghali**

A report by the United Nations Children's Fund in 1989 estimated that more than half a million children under five years old were dying in the developing world every year because of conditions relating to the debt crisis.

Government and parastatals are overmanned, and civil servants are poorly paid, resulting in corruption

The message to recipient countries remains blunt, however they are going to have to show the IMF that they have the capacity to use resources effectively through sound economic policies and effective governance.

But while theorists design programmes for Africa from ivory towers in Washington, questions remain over whether those programmes are appropriate.

Had Kenya not abandoned the structural adjustment programme it could have faced the worst food riots in its history The sharp increases in consumer prices had made life virtually unbearable for most people and it was clear any more price rises would have proved politically suicidal

Some African governments see only one way for them to break out of the vicious cycle of debt and that is for at least some of the debts to be written off

This option could be canvassed extensively at the OAU summit next month

BUSI

China geared up to outpace Japan

BIOM 24/5/93 (156)

Own Correspondent

LONDON — A surging economy will help China eclipse Japan as a strategic giant in little more than a decade, according to two key Western studies.

According to a pending IMF report, China's economy is far larger that previously thought. It says China produced goods and services worth almost $2-trillion last year — four times more than estimated. Its economy is said to be already third behind those of the US and Japan.

A report by the London-based International Institute of Strategic Studies concludes that China's economy is growing so large and so fast that its government will oscillate between great confidence on the world stage and insecurity as old-style hardliners struggle to keep control of it.

China, said the institute's annual strategic survey report, "is becoming both more important and more difficult to handle".

With a domestic growth rate of 12,8% last year, its capitalist reforms have clearly produced better results than those of Russia. "The death of the Soviet Union meant China was more secure from external threat than at any time in several centuries," said the report.

But it still has a centrist, military-dominated government and will try more subtle means to influence other nations to stand up to what it perceives as a Western attempt to reorder the post-Cold War world.

But the report said the logic of the Chinese reforms was to decentralise political power, increase greater fragmentation and provide less direct scope for Beijing hardliners to directly challenge the West.

The IMF report, as well as placing China's as the third largest global economy, puts Britain below India in terms of overall national purchasing power.

By using a new formula to assess national output, the IMF economists in Washington have underlined more clearly the diminishing status of Europe as a world trading power.

The key which the IMF has used to unlock these hidden trends is a new method of analysis which dispenses with the traditional system of measuring a country's output in US dollars. That relied on a fluctuating scale in which the weakness of currencies associated with developing industrial economies could result in falsely low readings.

The new "purchasing power parity" method weighs each country's GDP on a scale linked to its internal economy, taking into account non-trading factors such as housing and transportation.

The resulting figure, unaffected by international currency movements, is then set against national populations.

On that basis, China's output last year changes from $400bn to $1 700bn and, even when its massive population is brought into the equation, that means it rates well above Europe in the economic league.

India, reclassified as the world's sixth largest economy with $996bn in output, tops not only Britain but other such advanced economies as those of Italy and Canada.

Such economic juggling has been questioned by some more conservative economists but others argue that the results give a far truer picture of what is really happening in the global market place.

Massachusetts Institute of Technology economist Paul Krugman said one valued effect will be to make his profession revise its view of the world as one with just three "economic poles" — America, Japan and Europe. — Daily Telegraph.

Star 24/5/93

ANC seen smoothing path to vital IMF aid

By Sven Lünsche

ANC assistance is crucial if the Reserve Bank is to avoid higher interest rates or a rand devaluation, says Davis Borkum Hare economist Jos Gerson.

Writing in the broker's Quarterly Strategy Review, Gerson says the authorities will have to take action in response to recent capital outflows, which accounted for R4 billion of the R7 billion lost in gold and forex reserves in the first quarter.

He says the temporary weakening of the dollar had recently improved the "leads and lags" situation so that the Reserve Bank was able to replenish the reserves in April.

But he warns that this respite may be transitory, particularly if the dollar recovers some of its momentum against the European currencies

"Ultimately, the Reserve Bank faces the stark choice of having either to put up interest rates or permit depreciation of the real exchange rate or both.

"The former option would directly delay the recovery. The latter option would re-ignite inflationary pressures and, like an interest rate hike, would also suppress domestic demand, although it would have the advantage of promoting exports."

He says, however, that this stark choice could be avoided if the Reserve Bank had access to International Monetary Fund (IMF) facilities.

With the help of the ANC, Gerson expects the Bank could raise as much as R2 billion this year from the IMF.

"However, we have heard that the IMF disapproves of the high real exchange rate that is being maintained and may thus be expected to press for a more rapid depreciation of the rand."

Gerson forecasts, therefore, that the rand could depreciate further this year.

For the economy as a whole, he predicts marginal growth of 0,3 percent in gross domestic product this year and 2,2 percent growth in 1994.

Moscow bows to demands of the IMF

By Jonathan Steele in Moscow W. Guard

28/5-3/6/93

156

RUSSIA'S government and central bank have promised the International Monetary Fund to limit credits to state enterprises to try to bring the monthly inflation rate down to 10 per cent by the year end.

They have also agreed to try to remove barriers to the private ownership of land, and to lift government controls on exports The promises are a setback for the powerful Russian industrial lobbies which favour protectionism and continued state credits They are aimed at opening the way to a $1.5 billion loan from the IMF which the Group of Seven organised earlier to bolster President Yeltsin

After days of argument the moves were finally agreed on Saturday, and a joint text was signed by the prime minister, Viktor Chernomyrdin, the finance minister, Boris Fyodorov, and Viktor Gerashchenko, the chairman of the central bank According to senior IMF officials, the agreement has to go to the IMF board If approved, the money could be made available by the end of June

The fund is being pressed by President Clinton and other Western leaders to offer Russia soft conditions under a newly created "systemic transformation facility"

But the IMF is still insisting on further "prior actions" by Russia before it releases the money and says Russia must agree to the normal conditions for a standby loan when it applies for a second tranche of $1 5 billion this autumn

The IMF has made clear to Russia and the Group of Seven that it is not going to allow an injection of dollars to prop up the rouble.

For Mr Fyodorov the agreement has important political value as it appears to bring the bank under closer government control

'IMF plan will draw investors'

B/DAY 28/5/93 (156)

LINDA ENSOR

CAPE TOWN — The adoption of an IMF structural adjustment programme by a new SA government would be a prerequisite for attracting foreign investment to the southern African region, Zimbabwean Agriculture Minister Kumbirai Kangai told a news briefing at the World Economic Forum yesterday.

Most countries in southern Africa had implemented IMF programmes, which he believed would play an important part in luring foreign investors Zimbabwe, for instance, was looking at policies and structures which inhibited investment

Zambian Finance Minister Ronald Penza said SA would have to undergo the same structural adjustment process as other southern African countries and eliminate regulations and exchange controls which inhibited free trade There would be no reason to fear SA's regional domination if SA's economy opened up to competition under such a programme

Deregulation, privatisation and lifting exchange controls would be necessary, Penza said Zambia had nine companies valued at about 1-billion kwacha waiting in the privatisation pipeline

He did not believe IMF assistance resulted in a loss of autonomy

Penza emphasised that political stability and the process of democratisation were also important preconditions for foreign investment

Botswana Minister of Mineral Resources and Water Affairs and Acting Minister of Commerce and Industry Archibald Mogwe emphasised the need for liberal fiscal policies and tax holidays to attract investment

Financial assistance should also be provided to encourage investors to train locals in commercial skills

Mogwe hoped that the new SA would not be protectionist or stifle development of competitive industries in other parts of southern Africa by preventing access to its markets.

Penza said he did not foresee the creation of a southern African trade bloc but merely a regional organisation He envisaged a single currency in the long term

Kangai said the OAU had set a target date of 34 years hence for subregions to join in an African economic community

People to decide on monetary pain — Manuel

156

ARG 29/5/93

BRUCE CAMERON
Business Staff

THE International Monetary Fund and World Bank could "forget about imposing conditions" on South Africa in assisting it under an African National Congress government.

Mr Trevor Manuel, head of the ANC department of economics, said the people of South Africa, not a bank in Washington, would decide what pain to inflict on themselves

And earlier in the week a meeting of sub-Saharan bankers, including nine central bankers, warned of the dangers of accepting aid in the form of soft loans, which were often tied to importing goods from a donor country

Mr Manuel said there was agreement within South Africa the economy needed to be restructured — the disagreement was over how and what should be done

Mr Manuel was speaking at a media conference during a World Economic Forum meeting on Southern Africa in Cape Town at which the World Bank back-pedalled on the issue, and on a recent report proposing structural change in South Africa.

World Bank vice-president Mr Edward Jaycox said earlier the World Bank's recommendations to revive the economy, which had come under fire from Mr Japie Jacobs, special adviser to Finance Minister Mr Derek Keys, as unworkable, was a "balanced approach"

The bank, which is standing in the wings with about R3 billion for development projects for South Africa, was not wedded to the model, he said

"We will be very happy if it contributes to the economic debate"

He warned though that a change in the political environment would not result in growth

"The economy will continue to go down if all the resources of the country are not used properly There will still be things standing in the way"

He said if a future government under pressure from labour unions maintained the existing protectionism and trade barriers, "there will be a cosy little arrangement, high profits, high wages and low employment"

Mr Jaycox said the World Bank never dictated conditions, but looked for a straightening out of public finances and sought to bring a country's assets to full productivity. This did not necessarily mean privatisation

"We ask governments to exercise options. We do not insist on any one formula."

Mr Manuel said South Africans had struggled for many years to achieve sovereignty over their own affairs As they gained this sovereignty, they would not surrender it again to a bank in Washington.

He said South Africa had the acumen and the skills, as well as a strong sense of national independence, to restructure its economy.

"There is agreement that there has to be restructuring If this restructuring (by ourselves) brings pain, it is ours. It is the process that is important."

He said structural adjustments being forced on Zimbabwe were resulting in gains made in the first 10 years of independence in education and health "being rolled back."

The result was the World Bank was now perceived to be the enemy.

The World Bank also admitted that 40 percent of its projects in Africa had failed.

CITY PRESS, June 13, 1993

Oxfam hits out at the IMF's role in Africa

C/Press 13/6/93

(156)

OXFAM has launched ~~an unprecedented attack~~ on the International Monetary Fund (IMF) The IMF has failed Africa "The Fund . is governed by apparently immutable orthodoxies entirely inappropriate to African conditions," it says

Far from providing "aid" to the world's poorest countries, the IMF has taken $3,9-billion (about R12,4-billion) from Africa since 1986. "There cannot be a role for the IMF if it is going to go on sucking Africa dry, as it is now," said Oxfam director David Bryer

Indeed, Oxfam concludes that "the fund should be withdrawn from Africa and its role taken over by a more appropriate agency"

Oxfam is Britain's oldest and second largest non-government overseas aid charity, spending $80-million (about R255-million) a year in 70 countries. Its criticism is contained in a report, "Africa, make or break", published last month.

Oxfam is not the IMF's only critic. Tony Killick, of the conservative London-based Overseas Development Institute, wrote in April that the "high failure rates and a paucity of 'success stories' leave particular questions about the fund's ability to operate successfully in Africa and other low-income countries."

The critique is broader than just Africa The IMF has also been taking money from poor countries in Asia and Latin America – for example, $4,6-billion (about R14,7-billion) from south Asia since 1986 And the criticism applies to the World Bank and donor governments as well.

Oxfam says that "the international donor community and multilateral agencies – the World Bank and IMF – continue to insist on economic policy reforms which have manifestly failed to generate recovery, while imposing huge social costs".

The World Bank and IMF strongly reject these criticisms. Edward Jaycox, World Bank vice president for Africa, said in March that "under structural adjustment, the countries of Africa have achieved significant progress".

Yet Oxfam concludes that IMF and World Bank-imposed Structural Adjustment Programmes (SAPs) have been a "fundamental failure".

While Jaycox said in a report to the bank in February that "adjustment has improved the lives of the vast majority of Africa's poor", Oxfam retorted that adjustment had "dramatically worsened the plight of the poor".

Jaycox argues that critics of World Bank policies "confuse the malady and the remedy" and that where the conditions of the poor continue to deteriorate, it just shows the need for further structural adjustment. Oxfam dismisses this as a failed prescription

It adds that in the few cases where the World Bank could point to "success", this "has been based on substantial aid transfers".

Oxfam has joined with other critics who argue that structural adjustment is built on a fundamentally false premise – "that sub-Saharan African economies can export their way to recovery".

It says the bank and IMF "encouraged countries producing a narrow range of commodities to expand production simultaneously, for already saturated markets"

Thus, for example, between 1986 and 1989 cocoa exporters in west Africa increased their output by a quarter, only to see foreign exchange receipts fall by a third as prices collapsed

The study by the two University of Florida researchers showed that many cases of brutality and discrimination by white police officers arose out of preconceived ideas about blacks. White policemen looked suspiciously at blacks walking or driving in white neighbourhoods, particularly rich ones.

"Many of these citizens were harassed for driving or shopping in an unscale white neighbourhood," said Kim Lears.

ly income of R8 000 per

Picture: GARTH LUMLEY

sign their organisations or jobs, that international funding and training assistance be sought, and that the force initially serve as an adjunct to the SAP, and not to replace SADF deployment.

Cilliers said his institute believed full implications of the creation of such a force had not been investigated adequately.

A force of 12 000 would be inadequate to deal with escalating violence in the absence of the SADF

"There is little prospect of such a force messy and time consuming. The implications in terms of service regulations boggles the mind.

"Since the peacekeeping force would have to have powers of arrest, etc, the force would have to be formally constituted through an Act of Parliament. The sum effect would be a drawn-out process lasting considerably longer than planned.

"We are convinced that even after all these efforts, the SADF will still be in the townships," Cilliers said.

Warning on united SA army

B/Day 14/6/93

LLOYD COUTTS

DEMOBILISATION of SADF, MK and TBVC armed forces personnel should take place once a transitional executive council is in place and before any planned integration of SA's armies, says the independent Institute for Defence Policy.

In a written submission to the multiparty talks' technical committee on violence, institute co-director Jakkie Cilliers said SA could not afford and did not need the sizable armed forces which would result from integration of armies.

"The situation that has to be avoided is simply to open the doors to the absorption into the military of the sum of all armed formations in the country and then try to demobilise some afterwards.

"This will not only be extremely complicated, expensive and messy but will require also constant special dispensations in terms of the public service regulations," Cilliers said.

"South Africans should be extremely circumspect about integrating persons into the military who will inevitably have to be demobilised," he said.

The institute suggested that formal criteria be negotiated, or at least approved at a political level prior to the institution of the transitional executive council, to define minimum requirements for integration into a future defence force.

It also submitted that assistance be sought from the international community, government departments and private sector, to assist in the reintegration into civilian life of present members of the armed forces not suitable or for whom there was no room.

Cilliers called for a freeze on military expansion and further training once the transitional council had been instituted.

The institute also proposed the establishment of a Council of Defence to advise the transitional executive council subcouncil on defence.

The institute has proposed a system of control points countrywide to establish a system of control and accountability of guerrilla armies by political movements.

Nonracial civic body mooted

B/Day 14/6/93

ADRIAN HADLAND

PRETORIA — Civic associations and white ratepayer groups were discussing the creation of a nonracial organisation to represent all residents in the central Transvaal region, it was disclosed last week.

Central Transvaal Civic Association media officer Titus Mafolo said common ground was being sought with traditionally white ratepayer groups with the aim of forming a unified body.

The initiative was the result of a decision by the civic association's general council last month to investigate the possibilities of unity.

Civic and ratepayer representatives had already met in the Greater Pretoria Metropolitan Forum, Mafolo said, but extended contact was being sought.

Attempts in Johannesburg to create a similar body representing all residents, had failed in April after six months of talks

Observers said the parties on the Johannesburg Forum had found little common ground.

Mafolo was optimistic similar difficulties could be overcome.

One of Pretoria's largest ratepayer organisations, Queenswood Park's chairman F Evans said discussions were under way.

"We have all got to get together and talk seriously," he said.

FW to lobby for IMF aid

B/Day 14/6/93

TIM COHEN

CAPE TOWN — President F W de Klerk has signalled that gaining access to IMF funds would be high on his list of priorities for his meeting with US President Bill Clinton later this month.

De Klerk sounded an optimistic note at the weekend, stressing the importance of IMF funding for SA's economic development.

The ANC has indicated that it would call for the lifting of remaining sanctions once agreement has been reached on a transitional executive council and the April 27 election date is confirmed.

De Klerk leaves for the US shortly after the plenary session of negotiations is scheduled to take place.

He and ANC president Nelson Mandela will visit Philadelphia to receive an award in recognition of their contributions to freedom and liberty

De Klerk said it was vitally important that SA gained access to the IMF if the country was to achieve the development intended.

Gaining access to IMF funding had always been one of government's priorities and he would be addressing the issue in America. (156)

However, De Klerk added a note of caution, saying that he hoped sufficient progress would be made in negotiations.

He suggested that should the ANC's relaxed criteria not have been met, access to IMF facilities would not be possible.

Judgment on crash expected soon

MARIANNE MERTEN

THE case against two former Sanlam insurance agents charged with murder and fraud will be moved from the Middelburg Circuit Court to the Pretoria Supreme Court on June 22 and judgment is expected during the same week

Isak Kruger and Lucas Loubscher are charged with five counts of murder, three of attempted murder and 13 of fraud related to a minibus smash near Witbank in January 1992.

Five of the eight occupants died when the vehicle plunged over an embankment. The State closed its case last week after leading evidence from police engineers who said the vehicle would not have rolled without "considerable outside interference".

During the three-week trial, it emerged that Kruger and Loubscher recruited 13 men, who provided personal details for what they believed to be job applications. The two accused used the information to take out Sanlam life insurance policies.

Domestic workers'

IMF, World Bank set to resume loans

AEG 24/6/93

WASHINGTON — The International Monetary Fund and the World Bank are ready to resume loans for South Africa as soon as sanctions are lifted, but the country's black leaders must first give the go-ahead

Negotiators are to meet tomorrow in South Africa to finalise the date of the country's first non-apartheid elections, expected to be held on April 27, and to set up a commission to oversee transition to democracy

African National Congress president Nelson Mandela said recently that his organisation would call for an end to the international embargo once the commission was set up

In principle, such a move would pave the way for the resumption of IMF loans — suspended since 1982 — as long as the institution's financial requirements are met

"The IMF is available when they want," said an international monetary source

It is believed the financial institutions would be ready to deal with the South African government and the transition committee and that there were two principal ways to extend assistance — a standby credit aimed at improving the country's balance of payments deficit, or a special credit facility to cope with problems such as a severe drop in exports combined with a rise in imports — Sapa-AFP

156

FM 18/6/93

INTERNATIONAL ECONOMY

Uncertain outlook

156

Latest international growth forecast from the IMF is 2,25% in 1993 and 3,5% in 1994 — from 1,75% in 1992. But the latest edition of the IMF publication *World Economic Output* warns that the outlook "remains unusually uncertain" It identifies the recent marked deterioration in the economic performance of Japan and Germany as the main obstacle to global recovery

The IMF has cut its 1993 economic growth rate forecast for Japan from 3,75% (made in October 1992) to 1,25%

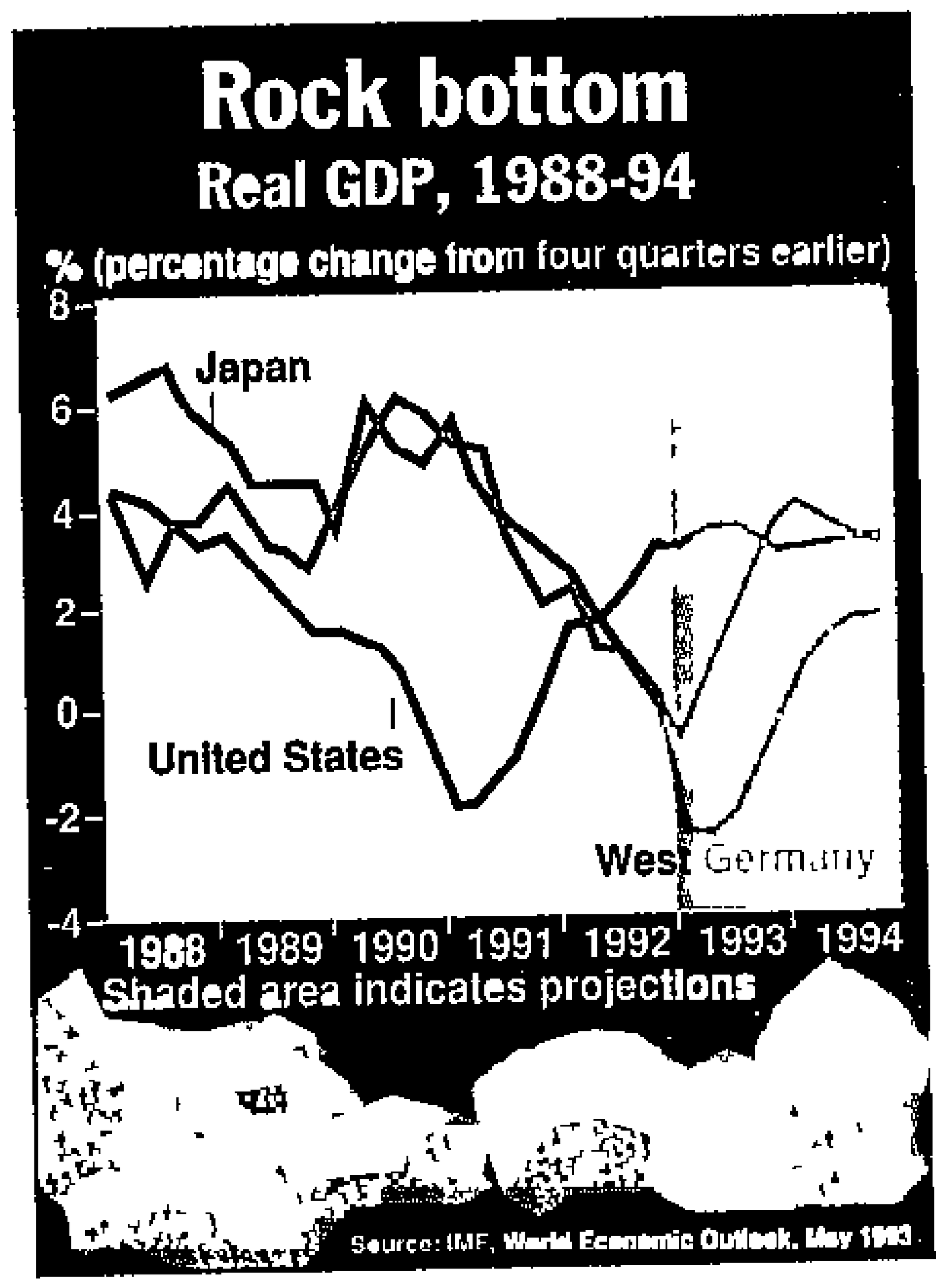
It attributes the diminished prospects to the effects of balance sheet adjustments Households, corporations and financial institutions have had to absorb the impact of the recent correction of inflated asset prices in, for instance, the equity and property markets

The 1993 forecast for Europe has also been revised downward — from 2,25% to zero This is largely because of tight monetary conditions in countries trying to bring down inflation

The IMF suggests that many industrial countries' current economic difficulties owe much to the failure to adopt key elements of the medium-term strategy they worked out in the early Eighties — in particular, efforts to control budgets and eliminate structural rigidities have been inadequate

In the face of this weak economic activity in industrial countries, developing countries have continued to perform comparatively well The publication projects annual economic growth of 5% in 1993 and 1994, only slightly below the 1992 rate of 6% "As more countries implement stabilisation and structural reform policies," it observes, "the medium-term prospects for the developing world appear brighter than they have been for some time"

It points out, however, that developing countries' growth rates have diverged in recent years The stronger performers have higher savings and investment rates (including investment in human capital) as well as higher efficiency of investment and overall productivity growth than the less successful countries They typically finance a larger proportion of investment with domestic savings When they draw on foreign savings, they prefer foreign direct and portfolio investment to debt-creating capital inflows



The successful countries are also more outward-orientated in relation to trade links with industrial countries and economic ties with other developing countries They have in general maintained or restored sustainable fiscal balances, low and predictable inflation, positive but low real interest rates, good balance of payments positions and competitive (as opposed to overvalued), stable exchange rates

They also rely on market forces to allocate resources efficiently, have reduced government intervention, fostered trade liberalisation and currency convertibility and encouraged financial market reform

Of the countries in transition from central planning, the IMF says, most progress towards economic stabilisation has been made by the former Czech and Slovak federal republics, Estonia, Hungary, Latvia and Poland.

An encouraging recent development, says the IMF, has been the continued easing of inflation in industrial and developing countries ■

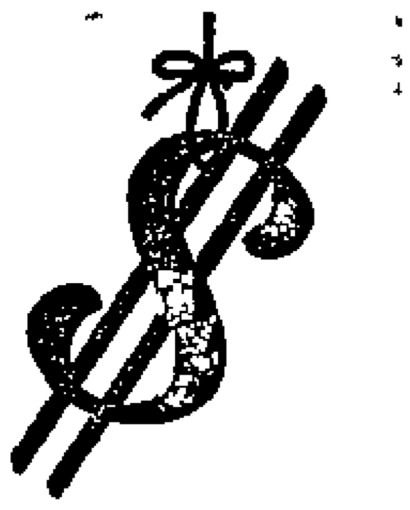
WHEN SANCTIONS GO

FM 2/7/93

Straining at the leash

156

When isolation is formally ended, we can at last face the real challenges



Since the early Sixties, SA has been subjected to sanctions in one form or other that have been progressively debilitating and have become a way of life Now that they are on the verge of removal, there is a reasonable prospect not so much of economic windfall but at least greater opportunity to secure a rising level of general prosperity

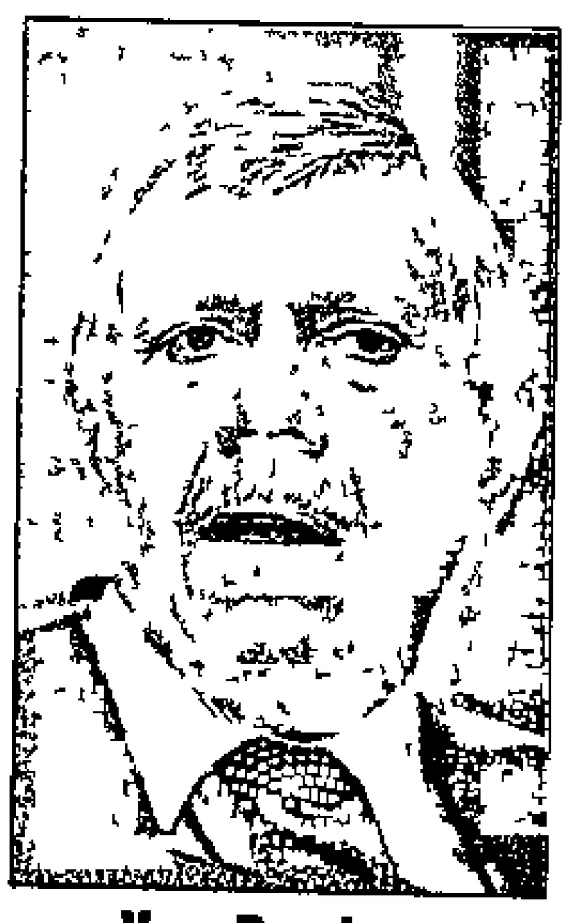
For the past eight years in particular — when investors and capital fled in substantial quantity after the foreign loans crisis — the struggle for survival eclipsed whatever hopes and endeavours there were to stimulate economic growth A serious and pervasive malaise has been the consequence

Rekindling the animal spirits of investors, traders and manufacturers will be a daunting task requiring persistence, perspicacity and courage — a task that will be well worth the reward

Sanctions began when New Zealand refused to establish diplomatic relations with the newly created Republic of SA and US President Jack Kennedy imposed an arms embargo in the aftermath of Sharpeville

Trade barriers have progressively eroded export income over nearly 30 years and in 1985 the severing of credit lines left us out on a financial limb, struggling with a huge debt burden as capital flight reached record proportions and the international value of the rand began a series of sharp descents

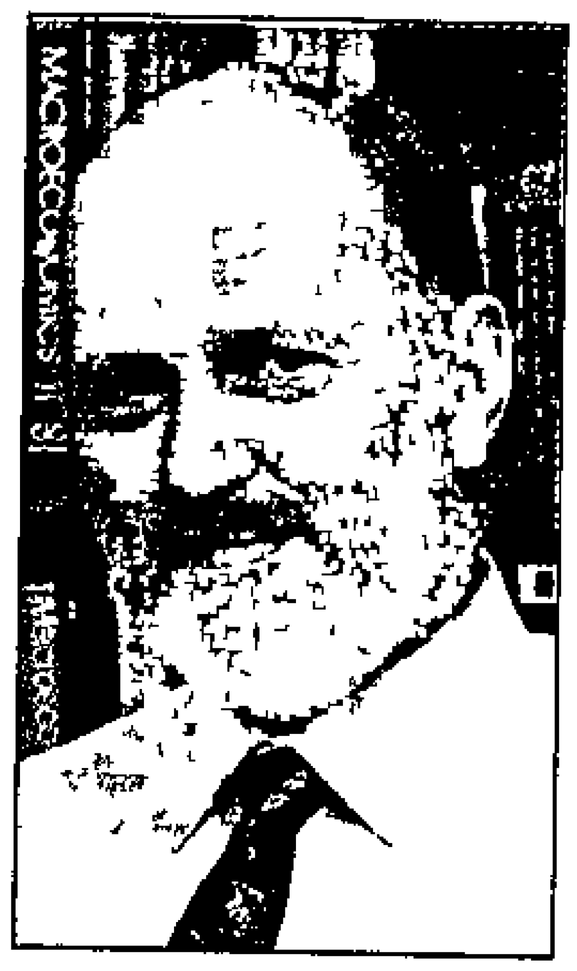
Once sanctions have been lifted, the first step will be to gain access once more to international capital The second step, which will not be easy, will be to attract it back to this country, in the form of loans and fixed capital investment The third task — and the most difficult — will be to put new capital to productive use so that the benefits of investment and growth are sustainable



Van Rensburg

The last two challenges in particular are daunting So much so that some could underestimate the significance of a formal end to sanctions Indeed, it will be no mere formality For it will mean the unrestricted (though conditional) access once more to International Monetary Fund (IMF) balance-of-payments support While the current trade surplus might suggest that such IMF support is at present more of a contingency for the future than a pressing necessity, the reality is very different

"An IMF facility — to fall back on when the balance of payments runs into the red — has more than psychological value," says Rand Merchant Bank economist Rudolf Gouws In 1982, following a 1981 current account deficit of R4,2bn, SA was granted SDR795m (about R954m at the exchange rate then), which proved invaluable in the face of further current account deficits — R3,6bn in 1982, R428m in 1983 and R2,5bn in 1984 If SA were once again in a position to apply for facilities, it could, if necessary, draw on its SDR1,4bn (about R6,3bn) quota



Mohr

Simply put, a return to normal relations with the IMF means monetary policy decisions will be influenced less by concerns about the balance of payments than they have been for eight years — and growth priorities will assume greater significance, especially as inflationary expectations subside

Ever since international banks withdrew credit facilities in 1985, leaving SA with US$23,7bn in outstanding short-term foreign debt, economic activity has been financed from hand to mouth Interim repayment arrangements, renegotiated at three-yearly intervals, have allowed us to continue in business But meeting the rescheduled payments, without the benefit of offsetting new inflows, has turned SA into a capital exporter, draining its resources at a critical stage of development and social need

Over seven years, SA paid back $6,4bn, reducing debt to R17,3bn by the end of 1992 In rand terms, the outflow has been magnified because the currency has depreciated against that of creditor countries in the period Valued at the exchange rate against the US dollar, as at August 31 1985, $7,9bn has been repaid

This was not the only capital outflow, of course According to research by economists Jacob van der Walt and Geert de Wet, SA has had an average capital outflow of R5bn a year since 1985 This was met from the proceeds of export earnings which, despite trade sanctions and deteriorating terms of trade, rose sharply over most of the period But what remained when interest and capital payments had been made was too little to finance adequate and sustainable growth

In 1988 and 1989, when net gold and foreign reserves shrunk by R3,5bn and R1,2bn (see graph), the authorities were forced to abort the upswing which generated GDP growth of 4,2% and 2,3% respectively. Van der Walt and De Wet estimated that if outflows continued at the same pace, the cost of financing them would constrain GDP growth to 0,9%-2,7% a year

The situation has been aggravated by shrinking exports (see page 37) The surplus on the current account (made up of trade and services) has fallen sharply Seasonally adjusted and annualised, it dropped from R5,4bn in the first half of 1992 to R2,5bn in the second half and only R700m in the first quarter of 1993 (Improvements are expected towards the end of the year to an estimated surplus of R4bn-R5bn)

And the capital account has been deteriorating A net capital outflow of R3,3bn took place in the first quarter of 1993, after a net outflow of R3,1bn in the previous quarter

The problem can only be solved, ultimately, by increasing exports and attracting investor interest The key to that is political settlement and economic reform

Meanwhile, a final debt arrangement and access to IMF facilities will enable domestic businesses to pay for the plant, equipment and intermediate inputs needed to increase productive capacity An estimated 70%-80% of imports is made up of capital and intermediate goods, so any upswing in demand for goods will reduce the trade surplus

The level of excess capacity in the economy is uncertain Official figures for the manufacturing sector show usage at only 78,8% in 1992 But this doesn't mean there is 21,2% surplus

Jan Dreyer, who heads the government Economic Advisory Service, says optimal capacity usage — when the economy is booming — is about 85% So, in practice, less than 7% is available And that means new investment in manufacturing capacity is needed urgently

But it will not be enough It will not be possible to make adequate use of this capacity, says Dreyer, without increasing imports of intermediate goods, which is why SA needs access to foreign capital before it can generate meaningful growth IMF standby facilities, a modest stream of development aid from sources such as the World Bank, and limited loans to the private sector from

cont'd

the International Finance Corp and other sources will make this possible

There are a number of spinoffs

The availability of such facilities and a final arrangement on outstanding debt will change SA's status as a borrower, says Ernie van der Merwe, head of the Reserve Bank economics unit "It will enhance our credibility and make bridging capital more readily available "

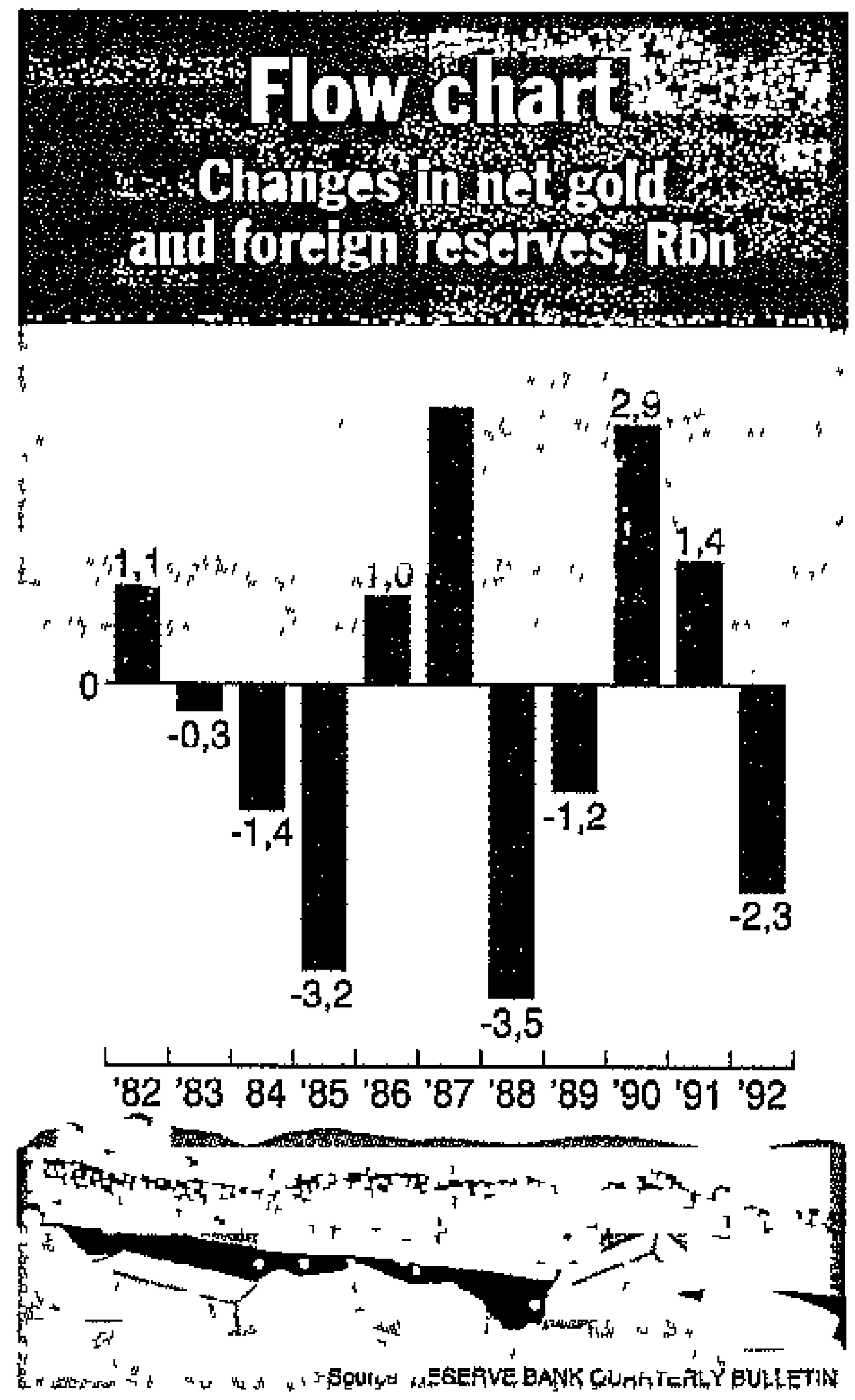
At present banks have to make additional provisions against loans to SA because SA borrowers have defaulted on debt repayments When the situation is normalised, bank loans will be easier to raise And capital market borrowing will be cheaper

Given this leeway on the balance of payments (and provided inflation does not immediately resurge), interest rates can fall further The normative economic model constructed by the official Economic Advisory Service projects that, in optimal circumstances, nominal interest rates can fall by 1,5-2 percentage points a year, for the next five years In that case, borrowing will be significantly cheaper — which makes it easier for consumers and producers to spend

IMF loans generally have to be repaid within three to five years, after balance-of-payments equilibrium has been restored Theoretically, this is not a problem As domestic fixed investment increases, productive capacity rises And if a significant portion of the additional output is exported, more foreign earnings are generated So, ultimately, the debt can be repaid out of the proceeds

In practice, the process is more complicated and vulnerable to external and internal influences capable either of abortion or at least distortion An increasingly efficient production and distribution chain is needed to promote this process

But access to foreign loan capital alone will not be enough It comes at a cost As a ratio of GDP, foreign debt amounted to little more than 15% at the end of 1992 This compares with the 43% at the end of 1985 "Short-term debt alone, at that point,



amounted to 22 months worth of imports," says Dreyer, "among the highest ratio in the world at the time "

Despite our more favourable ratio now, we have to bear in mind the cost of servicing debt "We cannot afford an inflow of loan capital of more than 1,5% of GDP a year," says Dreyer The normative model projects an inflow of capital of only 0,7% a year between 1992 and 2000

In the private sector, borrowers are likely to be wary of foreign borrowing, after the disastrous experience of the early Eighties, says SA Chamber of Business chief economist Ben van Rensburg

Another constraint on borrowing is the adverse perception of potential creditors No-one is optimistic on this score now "The best we can hope for," says Dreyer, "is to halt the net outflow " But this is a significant gain, he stresses "Outflows have averaged 2%-3% of GDP a year and represented 35% of net domestic savings That's how much more we would have available for investment in future "

Raising capital is only one issue Another is spending it productively, says Brian Kahn, UCT economist and a member of the ANC economic think-tank, Merg "We have to ask 'Is there a shortage of capital at the moment?' Firms aren't investing and capital will only become a constraint when there is a will to invest," he says

Kahn points out that a debt-led boom which consists only of consumer spending will end in a debt crisis "So you have to decide what are the investable opportunities This decision depends on the nature of future industrialisation strategy "

The spending constraint applies also to aid capital "We don't have the managerial capacity to use funds effectively," says Unisa's Philip Mohr

These problems will have to be addressed — the sooner the better — if we are to maximise the benefits of capital inflows Says development economist Wolfgang Thomas "Formal sanctions have not been the only barrier to growth

"The main obstacle has been an inability to compete internationally Once sanctions are gone, there will be no excuses and we will have to tackle the real problems While sanctions were not under our control, (economic) policy is "

There are different perceptions as to how problems can best be solved But it is to be hoped that policies applied will be those best able to restore the country's credibility in international markets

Freed from trade sanctions and the need to counter or compensate for them, SA will be able to exploit its comparative advantages instead of pouring resources into unproductive industries spawned by the needs of what was an increasingly isolationist apartheid outlook

If the future government takes the opportunity to promote competition (especially through privatisation), liberalise foreign trade and phase out exchange controls, the capital outflow can not only be stopped but eventually reversed and the growth process will be self-perpetuating within the exigencies of the business cycle

Access to adequate financing is, of course, the most pressing problem facing SA

The restructuring of the economy to benefit from investment and trade is also important But access to new technologies at reasonable prices, the freer flow of ideas and the attraction of new skills as progress becomes apparent — these are also tangible benefits that will flow from the removal of sanctions

All these added together are more than the sums of the part "New parameters always create new possibilities," says Merton Dagut, head of the Wits economics department ■

STILL IN PLACE

Apart from sanctions relating to arms and military co-operation, the following remain, according to the Department of Foreign Affairs

☐ Commonwealth countries (in some cases excluding the UK) ban all loans to SA and the import of SA coal, steel, iron and uranium,

☐ Canada bans export credit guarantees and insurance policies which facilitate trade with SA No double taxation agreement The province of Ontario bans the purchase of SA wines and liquor and excludes firms which are involved in financing the SA government from participating in Ontario government bond issues,

☐ Malaysia bans all exports and imports,

☐ Norway bans direct sales of Norwegian oil,

☐ Sweden bans new investment, reinvestment, trade, the issue of patents and manufacturing licences, as well as loans, credits and guarantees not related to international trade,

☐ Tanzania bans trade and commercial contact,

☐ In the US, financial sanctions are applied by an estimated 89 cities in 27 states In some cases there are also restrictions on trade, and

☐ IMF and World Bank loans

IMF willing to lend to SA, conditional on political pact

R2,8-billion loan

PETER FABRICIUS
The Argus Foreign Service

156

ARG 2/8/93

WASHINGTON — South Africa could get a loan of $850 million (R2 839 million) from the International Monetary Fund as early as November if negotiators reach agreement within three to six weeks on a transitional executive council and an election date.

President De Klerk disclosed this last night on the eve of his and ANC leader Nelson Mandela's meetings today with President Clinton.

Mr De Klerk revealed the availability of the loan after successful meetings with IMF managing director Michel Camdessus, the World Bank and big American corporations

Mr De Klerk said he would go home with the message that South Africa was on the threshold of long-term World Bank support

And several of the corporate leaders he had met, many of whom had disinvested, were planning to reinvest, he said

Mr De Klerk said he thought that a negotiations agreement was possible within three weeks

It is estimated that the IMF loan could save South Africa nearly $30 million (R100 million) a year in interest alone as it would probably be offered at prime rates

Observers believe the IMF loan would lend financial respectability and would reassure the international financial establishment that South Africa is a good credit risk

The loan would be a Compensatory and Contingency Financing Facility (CCFF), a category of credit aimed at helping a country get over a special balance of payments problem

The drought has placed a strain on foreign reserves because it has wiped out the export surplus and made food imports necessary

The IMF has assessed that South Africa requires $850 million to address this problem in the year to June 1993

But South Africa must complete the formalities of the loan bid within six months

Because the formalities will take time, this imposes a much earlier deadline for a negotiated settlement — Mr De Klerk estimated three to six weeks

Before granting the loan, the IMF wants to see agreement on a TEC and election date and also broad consensus among South African parties on the need for the loan

Yesterday Mr Mandela firmly quashed hopes that he might issue a call for the lifting of sanctions during his visit

Speaking to reporters in between meeetings with Congress Africa specialists, Mr Mandela said "There can be no question of me making an announcement during this visit"

He said that even if negotiators reached agreement today at the World Trade Centre on a transitional executive council and a date for elections, the ANC's national executive would have to meet before the go-ahead could be given for sanctions to be lifted

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IMF loan: Mandela angers FW

156 CT 5/7/93

PHILADELPHIA — President FW de Klerk and Mr Nelson Mandela were preparing to receive Liberty Medal awards from President Bill Clinton at an Independence Day ceremony here last night, embroiled in a political wrangle over the lifting of sanctions

It was up to the ANC — and not the current government — to decide whether South Africa should receive an $850million (about R2,8bn) loan from the IMF later this year, said Mr Mandela.

The remarks were in line with the generally imperious tone Mr Mandela has adopted toward Mr De Klerk, at least in public, in the run-up to yesterday's ceremony

Mr De Klerk was reportedly angered by Mr Mandela's suggestion that sanctions should remain intact until legislation to set up the Transitional Executive Council had been approved Mr De Klerk is quoted as saying that the hungry and the unemployed in South Africa are paying for every day lost.

Mr De Klerk appeared to have outflanked Mr Mandela on the issue of sanctions by announcing after a meeting with IMF managing director Mr Michael Camdessus that the IMF and the World Bank were "impatient" to resume lending to South Africa

He predicted that the IMF would make available nearly R3 billion from its compensatory and contingency financing facility, possibly as early as November The loan would be on favourable terms

Speaking on Saturday in Philadelphia's legendary Independence Hall, where the United States constitution was drafted, Mr Mandela called Mr De Klerk's views "totally irrelevant" Lending to South Africa by the Bank and the IMF could resume only when the ANC called for the removal of remaining sanctions — Own Correspondent, Sapa-AP

● End-sanctions call likely soon — Page 2

sive resistance to pressure negotiators into ac-

Damper on IMF loan euphoria

W/Mail 9/7 - 15/7/93 (156)

By REG RUMNEY

THE euphoria over State President FW de Klerk's announcement that South Africa might get access to an International Monetary Fund (IMF) facility is overdone.

True, an IMF stamp of approval is a signal to foreign investors that the country is okay for investment.

It will not, says Nedcor chief economist Edward Osborn, automatically mean Reserve Bank governor Chris Stals will turn his monetary policy around and cut interest rates again this year.

The $850-million facility enables the Reserve Bank to borrow up to this amount in times of crisis on the balance of payments (BoP).

If Stals precipitates a BoP crisis by cutting interest rates, the IMF could accuse him of engineering a situation where the loan comes into effect.

Descriptions of the facility as being for drought relief are also misleading.

If South Africa has need of the facility, it will be reflected in the accounts of the Reserve Bank as a claim on balances in New York. It will not be loaned or paid to farmers.

So it will immediately be on the books of the Reserve Bank, strengthening the foreign reserves. But it is not a developmental loan.

The importance of having such a facility, says Osborn, is that it gives foreign investors a sense that there is the safety net in South Africa of access to IMF money.

It is not clear the loan will be drawn down in September. "It may be necesary to draw it down, depending on how badly the balance of payments is affected."

It would be better to announce the facility but not actually to use it, Osborn considers. If it is granted and South Africa does have to avail itself of the money, it must be remembered that the loan has to be paid back from the exchequer account in rands.

Depending on further devaluations of the rand against the dollar and the interest rate attached to such a loan, perhaps eight percent, this could mean, say, R250-million a year coming from the exchequer account for some years to come.

IMF loan could resuscitate rand

Star 10/7/93

Reports spurred the currency to regain ground

156

A WEAK currency discourages investment. Should the fund encourage international banks to lend to South Africa, the commercial and financial rands might rally, reports NEIL BEHRMANN from London.

WHILE the commercial rand is expected to weaken further against the dollar in coming months, London foreign exchange managers expect the financial rand to strengthen.

However, they expect volatile markets, and if an IMF loan were to encourage international banks to lend to South Africa, both units might rally ahead of capital inflow.

After slumping to a low of R3,385 to the dollar at the beginning of July, the rand recovered this week to R3,345 on reports that an IMF loan might be in the offing

This illustrates what could happen if South Africa were to experience inflows.

London dealers say that despite the short-term rally, the past few weeks have been a dismal period for the commercial rand

Since the end of May, it has fallen 5 percent against the dollar and 1,8 percent against sterling. It appreciated just more than 1 percent against the Deutschmark and Swiss franc, which weakened appreciably during the month.

The extent of rand weakness exceeded London foreign exchange dealers' expectations They thought the better gold price, maize crop and exports would partly support the currency

They predicted the rand's weakness against the dollar at the end of May, but not the extent of its fall

Dealers proved to be over-optimistic they underestimated capital outflows These amounted to R3,7 billion in the first quarter of 1993 and R7,2 billion since October 1992.

Banks were in a good position to sell the rand in SA's tiny market because they knew that the Reserve Bank had insufficient funds to support the currency

The commercial rand has slid by 10 percent against the dollar in only six months — 19 percent since the rand-dollar peak of early September — and by 30 percent against the yen.

Since the Deutschmark and sterling were at extreme levels of overvaluation at the time, the rand has gained on those two currencies It is up 10 percent against sterling but only 2 percent on the Deutschmark.

A month ago the rand appeared to be stabilising, even though some weakness against the dollar was expected The recent rout is disturbing, showing that the currency is caught in a vicious circle, with the market conditioned into believing that it can only head south

On the plus side, the combination of a gold price increase and rand weakness will undoubtedly stimulate the economy Because of devaluation the rand gold price, in effect, is equivalent to $456 an ounce.

On the other hand, a continual currency slide will be detrimental for the economy in the long term, not only because of inflation but because a weak currency discourages foreign investment

In normal circumstances, since SA's underlying inflation is less than 10 percent, the commercial rand would be regarded as oversold and an economic stimulus would be laying the foundation for a currency recovery

But prolonged political infighting and violence implies that "normal" economics cannot be applied to South Africa, so until the reserves are replenished banks and their customers will be willing to sell the currency on rallies even though the forward premiums are expensive.

The 12-month forward rate, for example, is R3,56 to the dollar. A year ago that was the financial rand rate.

On the major exchanges, foreign exchange experts believe the dollar will consolidate and then rise further in coming months

It is expected to perform best against European currencies weakened by depressed economies and falling interest rates

Foreign exchange forecasters believe the dollar has bottomed against the yen.

European currency weakness is expected to persist because unemployment, already high, is rising, and politicians are pressing for interest rate cuts while the US Federal Reserve is expected to raise short-term interest rates

ANC fears FW move may hurt debt talks

BDay 14/7/93 TIM COHEN

THE "premature" announcement by President F W de Klerk that the IMF was prepared to grant SA a special loan of $850m has sparked concern in ANC ranks that debt rescheduling negotiations might now be more difficult.

A senior ANC member also indicated yesterday that the up-front "bullet" payment being demanded by creditor banks for debt still in the rescheduling net was even bigger than previously thought. 156

Creditor banks are apparently demanding that 13% of the $5,2bn still in the net should be paid off during 1994, which is higher than the 10% previously speculated.

During recent discussions with creditor banks, the ANC suggested that rather than a large up-front payment, the greater portion of the outstanding debt should be paid later so that a new government would not be unduly burdened early in its existence

The ANC criticised De Klerk's announcement, made during his US visit, that the IMF was prepared to grant SA special facilities — to deal with the effects of the recent drought crisis on the balance of payments — on the basis that it was unilaterally done, even though the ANC was involved in the discussions

A senior ANC source indicated that the organisation was also concerned that the loan might end up being totally absorbed in debt repayments, rather than being used for economic and social upliftment.

It is understood the ANC and government are currently involved in intense joint discussions to renegotiate the debt rescheduling arrangements.

Finance Minister Derek Keys has indicated creditor banks are requiring "political endorsement" of the deal, which will probably not be struck until the transitional executive subcouncils are established.

● Comment: Page 6

FW could visit US for IMF talks

156

The Argus Foreign Service

WASHINGTON — President De Klerk could visit the United States again this year — perhaps at the time of the annual meetings of the World Bank and the International Monetary Fund

ARG 22/7/93

It is understood that the SA embassy here is discussing possible appointments for him.

But the embassy would not confirm that it was planning for a visit by Mr De Klerk

ST Times B Buss 18/7/93

IMF money waits for the lame ducks

SA can turn on the tap for IMF funding, assuming that its lame duck leaders find a way to overcome their disabilities. COMMENT by KEVIN DAVIE.

SOUTH Africa's two lame-duck presidents, F W de Klerk and Nelson Mandela, have both returned from the US where the former visited Michel Camdessus, managing director of the International Monetary Fund

The Group of Seven leading industrial nations, which dominates the voting at the IMF, is keen to foster a political settlement in SA (one Bosnia is more than enough)

So Mr de Klerk emerged from his meeting with the news that SA could expect a $850-million loan from the IMF this year

Nelson Mandela, also a lame duck leader in that he has no official power, did not see the IMF, but immediately objected

The ANC has been involved in behind-the-scenes discussions on the issue of IMF finance, but believes Mr de Klerk does not have the mandate to speak for SA

It wants a say in how the money is spent (social development projects, for instance)

There have also been worries in other quarters that this money is too expensive

So the flapping of winged ducks produced much hot air and little clarity on what might be the best economic news in a long time

Economist Mike Brown of Frankel, Pollak, Vinderine has looked at the issue closer than most He says Mr Camdessus stressed that the IMF would consider only an application from the transitional executive council (156)

As far as foreign finance goes (all sane observers agree we need foreign funds) this is cheap money, says Mr Brown

"The interest rate is an average of money-market rates of the major currencies and currently works out at 5,02% a year Loans are repayable over three years"

Mr Brown says this is less than half what SA is now paying on foreign loans An added bonus is that unlike World Bank money, which may take months if not years to begin flowing to SA, the IMF loan will be credited to SA virtually overnight

It will double our effective foreign-currency reserves, allowing scope for an interest-rate cut by Reserve Bank Governor Chris Stals

But perhaps best of all, because this loan will be extended in terms of a special facility for temporary balance-of-payment (BoP) problems (in SA's case, the drought), it does not come with the IMF's tough conditions usually linked to an economic reform programme

But there are some conditions The loan is for BoP difficulties — it cannot be used for domestic spending, nor can it be used to repay foreign loans by commercial banks

Another condition is that this IMF facility must be used while the country is experiencing the temporary problem With the effects of the drought now receding, it is reckoned that SA will have to make the application by the yearend

We have seen many windows of opportunity close (such as the chance for Mr Mandela to call for an end to sanctions while getting a medal from President Clinton) as negotiations have dragged on

The open window at the IMF may also close as the national interest again succumbs to politicking.

SA will have to have access to IMF resources, if only to be able to secure a final accord with creditor banks to get rid of the debt standstill, opening the way for new private loans

Private money will remain shy of moving to SA until it sees that the IMF, the banker of last resort, has approved this country

But we have two lame ducks in charge, neither with the power to turn on the IMF tap. What the IMF and its G-7 backers want is a joint effort before the money starts flowing

Stals warns of threat to reserves

IMF funding may be held up until '94

BDay 27/8/93

(156)

GRETA STEYN

SA was unlikely to receive any funds from the IMF before next year, Reserve Bank Deputy Governor Jaap Meijer said yesterday.

He said the formalities of applying for the special drought-related facility, which was mooted earlier this year during President F W de Klerk's visit to the US, had not yet progressed far. Once the formalities had been completed, there would be a lag before the finance — about R2,8bn — was received.

Market expectations of IMF finance before the end of the year had fuelled bullish sentiment on interest rates However, Reserve Bank Governor Chris Stals this week provided no hope for a boost to SA's foreign exchange reserves. He reiterated his concern about the country's vulnerable external position in a speech yesterday.

Sapa reports Stals said "It is vital we have renewed access as quickly as possible to international financing" A strong post-recession surge in imports could wipe out SA's foreign reserves in six months.

Addressing a business breakfast in Johannesburg, Stals said gross foreign reserves of R7,4bn at the end of July were equivalent to only 1,5 months of imports compared to almost 2,5 months at the end of the previous 1984-86 recession

He said the mid-'80s economic downswing had typically resulted in a deficit on the current account which would then be transformed into a surplus that lasted well into the subsequent recovery.

However, the current account surplus had deteriorated over the past year and in the first three months of 1993, before recovering to an extent in the second quarter. The situation had been exacerbated from June last year with a large outflow of capital reflecting the continuing political turbulence and violence.

Stals estimated that if imports were to expand by similar percentages to the import growth experienced after the past two recessions, SA's surplus on the current account would turn into a substantial deficit

However, he did not believe the economy was on the brink of major growth after four-and-a-half years of recession, despite a healthy rise in GDP in the first two quarters

"The economy has changed direction and is perhaps at the bottom of the (downward) cycle, moving on a horizontal plane Not only from the production side (of the economy) but also the expenditure side we don't see any major recovery, but we do see some levelling out"

Economic growth should be encouraged by creating confidence and giving markets the opportunity to work effectively.

"To solve the very serious problems in the economy, we come back to a basic confidence in the private sector and leave it to them to do the development."

Stals reiterated his commitment to creating a stable financial climate by protecting the value of the rand and encouraging lower inflation This would help to create the confidence necessary for sustained economic development

"The legacy we can give to a new SA is to keep financial stability," he said, noting that inflation was tending downwards

SA, IMF loan poser

(15b) ARG 15/9/93

BRUCE CAMERON
Business Staff

SOUTH African finance authorities and the International Monetary Fund are stuck in a legal tussle over who has the capacity to sign for a loan from the international institution

The IMF's compensatory and contingency financing facility (CCFF) of $850 million (R2,9 billion) for drought-related relief offer to President F W de Klerk last year runs out on December 31

Although keen to take up the offer the government has been stymied along the way by a number of factors including ANC resistance to the deal

However it now appears that the ANC would not block the loan and the problem lies in the the bureaucracy of the IMF in Washington

The IMF for a number of years has stated that it wanted consensus between South African politicians before lending money It however never spelled out what would amount to "sufficient consensus"

With the offer of the contingency loan the IMF has however sought a more formal consensus

It is understood that the IMF would prefer the application for the loan to come from the newly negotiated Transitional Executive Authority which is only scheduled to be operational towards the end of next month

This would leave little time for the process of applying for the loan to be completed by year end

The government would like to see early access to the money as it would help ease the pressure on South Africa's threatened reserves as well as make borrowing on the international capital markets cheaper

When South Africa re-entered the international capital markets in August 1991 with a DM400 million issue the country paid 160 basis points above the German benchmark issues. At the moment it is estimated South Africa would have to pay a prohibitive premium of more than 230 basis points

Access to IMF facilities would ease the pressure on the premium as well as on the ability to borrow money to refinance existing loans which are due for repayment

There is ongoing correspondence between the IMF and the government on the issue which will be discussed face-to-face at the IMF/World Bank annual meeting later this month

The ANC is represented on the South African delegation by its head of the economics department Trevor Manuel

The delays in finalising the loan probably means South Africa will have to settle for a smaller amount, reports Claire Gebhardt from Johannesburg.

This is because the effect of the drought on the balance of payments was alleviated somewhat by an uptick in the agricultural performance in the second quarter

The loan will also probably be subject to a future government following some conditions on monetary and fiscal policies Observers believe this could be a stumbling block

With the IMF meeting scarcely two weeks away, there appears little consensus between the ANC and Cosatu on future policy

For the world's financial elite due to converge on Washington, policy is what it's all about

No cash without clear economic policy

Star 15/9/93

Foreign loans issue clouded

156

BY CLAIRE GEBHARDT

Time may be running out for SA to get its act together

Economists believe there is little hope of substantial loans emerging from the 48th annual meeting of the International Monetary Fund (IMF) and World Bank in Washington later this month unless there is clarity on future policy

What funding is available could be less than expected because the ANC has been dragging its feet

The IMF's compensatory and contingency financing facility (CCFF) of $850 million (R2,9 billion) for drought-related relief, first offered to President FW de Klerk, and later criticised by Nelson Mandela on the grounds that the ANC had not been consulted, has still to be ratified

Although the offer is valid until December 31, SA's tardiness in accepting the loan probably means it will have to settle for a smaller amount

This is because the effect of the drought on the balance of payments was alleviated somewhat by an uptick in the agricultural performance in the second quarter

The loan will also probably be subject to a future government following sound monetary and fiscal policies Observers believe this could be a stumbling block

With the IMF meeting scarcely two weeks away, there appears little consensus between the ANC and Cosatu on future policy

FW de Klerk .. criticised by Nelson Mandela.

For 10 000 of the world's financial elite due to converge on Washington, policy is what it's all about

After 27 years of pariah status, SA will soon be able to borrow money from the IMF and World Bank again — but there's little indication of when and how much will be forthcoming

The problem lies with the ANC's attempt to retain its trade-union base in the run-up to next year's election

While ANC economics chief Trevor Manuel has stressed the urgency of the need to seduce foreign investors into believing there are opportunities in SA, the trade-union movement has sent out mixed messages.

OBSERVERS say a lack of consensus could be a stumbling block to unlocking the coffers of the IMF and World Bank

Commentators have reacted with alarm to developments at a weekend Cosatu meeting when delegates reaffirmed their commitment to socialism and repudiated an ANC proposal that macro-economic stability be a cornerstone of a Reconstruction and Development Programme (RDP).

World Bank money is also available, but the bank needs projects to be identified and put on the table

Although the Government has certain proposals in the pipeline which could see money start to flow, it is anxious not to be seen to be acting unilaterally

The World Bank needs to finalise its studies on SA and needs to be convinced that a new government will support restructuring programmes and service debt.

But while the ANC is, for the time being, striving to reflect solidity on the issue with the trade unions, many believe that a showdown with Cosatu is inevitable post-election

Trevor Manuel .. opportunities in SA.

"Any putative power-sharing arrangements currently being discussed will almost certainly be challenged by the economic problems that a new government will face

"Clearly the ANC will have to make some exceptionally difficult decisions on which constituencies it wants to shed," says an analyst

"If the ANC wants to start delivering the goods to the people, it's going to have to attract foreign investment and that means putting the labour movement firmly in place," says another.

Commentators have also criticised the delay in the lifting of sanctions

Once a Transitional Executive Council is firmly in place, it is believed that Mandela will call for the lifting of sanctions during a visit to the US, timed, perhpas, to coincide with the IMF meeting

Econometrix notes that had the ANC called off [illegible]ctions at the beginning of [illegible]e year instead of now, it could have made an enormous difference to the state of the economy and to the entire socio-policial environment in the run-up to the election

"An earlier easing of sanctions would have paved the way for an earlier resumption of foreign loans, thereby preventing the foreign reserves crisis in which the country currently finds itself

"This would have facilitated a far more significant decline in interest rates in the face of falling inflation

"It now seems unlikely that new foreign loans, besides the IMF drought relief package, will be forthcoming before the election is out of the way," it says

The good news is that the IMF funding for drought relief should be enough to see SA through the current pressure on its reserves and to meet the bullet payment on the forthcoming debt agreement.

Hopefully, a government with the right economic policies will be place in the first half of next year and could look at getting further loans

15 1993

Cape Times

IMF warns of capital inflows

CT 15/9/93

(156)

WASHINGTON — The International Monetary Fund warned developing countries yesterday that vast capital inflows from abroad posed risks but said they can be reduced by policies to control economic overheating.

With industrial country interest rates [illegible] and their economies in [illegible] of intense struggle, capital [illegible] into the developing world in search of higher return.

"We don't believe that the dangers posed by the capital inflows are in any sense insurmountable," an official said. "It's rather a warning flag that we [illegible] to highlight that they have the potential at least to cause problems for domestic macroeconomic policies."

Officials [illegible] reporters to discuss the global lending institution's annual report.

[illegible] the continued interest on the part of [illegible] for greater financial return [illegible] available in the more traditional markets in industrial countries, the report saw increased risk of inflation and runaway spending in developing countries.

"In these countries, fiscal policy might need to be tightened to [illegible] room for higher investment and tighter [illegible] policies may be warranted to [illegible] in inflationary pressures," the report said.

The IMF [illegible] ments come at a time when trade policy developments among industrial countries [illegible] being overshadowed by continued uncertainty about the Uruguay trade round, now expected to be completed by December [illegible].

Fund lending activity, described as being in a normal cyclical pattern, is expected to be strong in the period ahead, the official [illegible].

The IMF had [illegible] financial arrangements with member-countries in the year to April 30 but is expected to exceed this number in the current fiscal year. — Sapa-Reuter

IMF warns SA over fiscal discipline need

CT 16/9/93 (156)

Own Correspondent

JOHANNESBURG. — The IMF has warned SA no finance will be forthcoming without a written undertaking of monetary and fiscal policy discipline in future — a move that rules out excessive social spending after the election.

Monetary officials said the SA government had already made a formal application for the $850m drought-related loan — with the backing of the ANC. They said an IMF team, headed by senior official Lesley Lipschitz, had spelled out conditionalities in Pretoria last week at a meeting of government, ANC, PAC and other political players.

The IMF team visited SA for preliminary discussions on the drought's effects on the country's balance of payments, and to spell out the undertaking needed from key political players in SA before the loan would be granted.

SA needs the fund urgently to top up its foreign exchange reserves ahead of a huge payment next year of 10% of $5bn of foreign debt in terms of a rescheduling agreement finalised last week. Efforts to change the terms of the agreement failed and without IMF assistance the SA economy would face a crippling debt burden.

It is understood the conditionalities will be discussed again when SA attends the IMF/World Bank annual general meetings in Washington from September 26. Expectations are that further progress towards obtaining the loan will be made during the meetings, but it is unlikely that the loan will be granted at that time.

Meetings are also scheduled with the World Bank, which has said $1bn could be made available to SA. Officials said government would use as its point of departure in these meetings a new document quantifying SA's social spending needs.

The discussion document was drawn up by a development initiative co-ordinated by IDT CE Wiseman Nkuhlu and including representatives from development institutions, key political parties and the labour movement. The document, which has not yet been released formally, is the first effort to quantify social spending needs in detail. The exercise is complemented with an analysis of the macroeconomic constraints on implementing a massive social spending programme.

The document said capital spending of almost R90bn would be needed over a ten-year period to do away with backlogs. This would imply recurrent spending of about R14bn in the tenth year of the programme. It is understood the government hopes World Bank finance will be obtained for a substantial portion of SA's social spending needs. It is unlikely, however, that this will be finalised in September.

The programme, which is understood to have Finance Minister Derek Keys's backing, sets out specific targets. These include a pupil-teacher ratio of 32-to-one in primary school classes, the building of 75 000 classrooms, 50 new community health-care centres, formal and informal housing for more than seven million households, a R6,5bn investment in water supply and sanitation, support for small farmers, small business development and employment creation.

The World Bank and International Monetary Fund may demand from South Africa a much clearer picture of how it intends to tackle a new economic future before they consider a full-scale set of aid packages, writes ***Michael Chester***

Star 16/9/93

Rush to beat wild election promises

156

Optimism is running high that South Africa will waltz away from the annual conferences of the World Bank and International Monetary Fund that start in Washington on September 27 loaded with all the treasure chests it needs to pave new economic highways into the future.

The optimism may prove to be premature. Both institutions are expected to lend a sympathetic ear to requests for assistance over immediate problems stemming from the worst recession on record But they are likely to be far more hard-jawed over a full-scale aid package.

Each still awaits more precise evidence of how South Africa intends to tackle the monumental task of repairing the damage caused by decades of apartheid and laying the foundations of a brand new non-racial society

The Development Bank of Southern Africa hopes to short-circuit the risk of such a dilemma by reaching as many public loudspeakers as possible before all the megaphones are grabbed by politicians in the election battle.

DBSA chief executive Andre la Grange has set an urgent deadline to complete a master plan for economic reconstruction and broadcast the details by October/November, at least five months ahead of polling day

Experts from across the entire political spectrum and scores of non-government development agencies and community leaders are being invited to join discussions in a bid to reach consensus on the shape and tempo of short and longer term targets.

Consultations are also in progress with the World Bank, African Development Bank and the SA Reserve Bank to consider the prospects of international assistance to help finance the multi-billion-rand exercise.

"We're not painting fanciful rainbows, says La Grange 'We are mapping out down-to-earth objectives that will be within practical reach, everywhere from housing and infrastructure to education and health services, with heavy emphasis on job creation in all spheres.

"It's crucial that voters learn the real facts about the socio-economic outlook before their heads are filled with impossible pipedreams by political rhetoric.

"The danger in the run-up to the elections is that wild promises of an instant Utopia, pledged by any politicians con cerned only with winning votes, could bring a terrible backlash when the new government finds it impossible to wave a magic wand that makes problems vanish at a single stroke '

The top priority on the bank s agenda is to spell out the realities of the time span it will take to reach objectives whatever the composition of the new government.

"Voters need to see way beyond April 27 They want to see where they may stand in the next five years, 10 years, 15 years, 20 years.

"It may test the patience of many impoverished families to learn how long it may take to complete a comprehensive development programme But they will be prepared for that if we can kindle a sense of trust in the ultimate results, and show them the stages at which benefits will start flowing.

"In short, voters need to be alerted to the reality that the march to a new and better future for everyone is going to be a long and hard slog, whoever comes to power next year "

The DBSA believes that socio-political calm and stability can best be restored by showing everyone a vision of hope.

Also, La Grange feels, there may have been too many players on the field, each one highly dedicated to the upliftment of communities, but often in unintended collision.

"Our aim is to co-ordinate the teams and draw sharper lines around the goalposts."

The prospects of better harmony among the players have been improved by the far wider contacts that have been established across most political boundaries by a new triumvirate at the helm of the bank:

- Professor Wiseman Nkuhlu of the Independent Development Trust, who has succeeded former Finance Minister Owen Horwood as DBSA chairman.

Nkuhlu, also president of the Black Management Forum, has sealed sound relations with all of the key political movements.

- Henri de Villiers, former chairman of the Standard Bank, who has been elected president.

De Villiers brings the assurance of close links with the financial and business world.

- Andre La Grange, who took over the reins as chief executive on the recent death of former Director-General of Finance Simon Brand.

La Grange, who has been with the DBSA since 1983, guarantees good relations with the public sector and the investment community in general.

Their combined new approach is based on strategies used by Singapore and Malaysia, which have astonished global observers with the pace of their economic development in recent years.

Both of them mapped out year-by-year targets that spanned over the next 10 years and beyond, allowing close public scrutiny of results to make certain that goals were met.

"We believe we can inspire similar confidence in South Africa if we clear the fuzziness that clouds the present scenario and deliver a set of objectives that can be seen to be within reach," says La Grange.

"Everyone will be more willing to roll up their sleeves and set about socio-economic reconstruction when they have a better sense of participation and when results can be expected.

"We want the draft development plan completed inside the next three months," says La Grange. "It will concentrate on the next five years, but with signposts to targets as far as 10 years and even 20 years ahead.

"The first priority is to prove that South Africa can produce results on its own."

La Grange . SA must produce results

IMF loan conditions rule out unchecked social spending in new SA

B/Day 16/9/93

GRETA STEYN

THE IMF has warned SA that no finance will be forthcoming without a written undertaking of monetary and fiscal policy discipline — a move that rules out excessive social spending after the election.

Monetary officials said the SA government had made a formal application already for the $850m drought-related loan — with ANC backing. They said an IMF team, headed by senior official Lesley Lipschitz, had spelled out conditions last week at a Pretoria meeting of government, ANC, PAC and other political players. The IMF team visited SA for preliminary discussions on the drought's effects on the balance of payments, and to spell out the undertaking needed from key political players before the loan would be granted.

SA needs the funds urgently to top up its foreign exchange reserves ahead of next year's huge payment of 10% of its $5bn foreign debt in terms of a rescheduling agreement finalised last week. Efforts to change the agreement's terms failed, and without IMF aid the economy would buckle under a crippling debt burden. (156)

It is understood the conditions will be discussed again when SA attends the IMF/World Bank AGMs in Washington from September 26. Further progress towards obtaining the loan is expected to be made during the meetings, but it is unlikely that the loan will be granted while the South Africans are in the US.

Meetings are also scheduled with the World Bank, which has said $1bn could be made available to SA. Officials said government would use as its point of departure a new document quantifying SA's social spending needs. The discussion document was drawn up by a development initiative co-ordinated by IDT CE Wiseman Nkuhlu and included representatives from development institutions, key political parties and the labour movement. The document, which has not been released, is the first effort to detail social spending needs. The exercise is complemented by an analysis of the macroeconomic constraints on a massive social spending programme.

The document said capital spending of almost R90bn would be needed over a 10-year period to do away with backlogs. This would imply recurrent spending of about R14bn in the 10th year of the programme. It is understood government hopes World Bank finance will be obtained for a substantial portion of SA's social spending needs. It is unlikely, however, that this will be finalised during this month's meetings.

The programme, which is understood to have Finance Minister Derek Keys' backing, sets out specific targets. These include a pupil-teacher ratio of 32:1 in primary school classes, the building of 75 000 classrooms, 50 new community health care cen-

□ To Page 2

IMF loan

B/Day 16/9/93

□ From Page 1

tres, formal and informal housing for more than 7-million households, a R6,5bn investment in water supply and sanitation, support for small farmers, small business development and employment creation.

The ANC and government will hold discussions with the IMF and the World Bank on their involvement in SA, but it is not yet clear to what extent they will present a united front. While the ANC is understood to have given its backing to the loan application, other areas of disagreement are possible. The possibility of disagreement could scuttle efforts to include the ANC in the formal SA delegation after legislation providing for a transitional executive council is passed. (156)

ANC president Nelson Mandela and President F W de Klerk will address a Washington conference before the IMF/World Bank meetings. The two leaders clashed during their last visit to the US, when De Klerk upset the ANC by announcing the likelihood of an IMF loan.

IMF cash injection 'very soon' for new SA

WASHINGTON — International Monetary Fund (IMF) financing for South Africa now that apartheid is being dismantled is expected to be discussed at this week's IMF and World Bank annual meeting in Washington, said a senior official. 121 (156)

"I hope that very soon we will be able to contribute to the financing of South Africa," he said yesterday "We see immense problems to tackle in the near future" ARG 20/9/93

The United States had blocked IMF and World Bank loans to South Africa, but the progress being made towards ending apartheid was expected to change that in the near future, he added

The IMF official said an "enormous" international financing effort would be needed to help South Africa cope with its difficulties and to correct the distortions caused by apartheid

Nearby countries, including Mozambique, Zambia and Namibia, would face problems as well, he said — Sapa-Reuter

P2 BUSINESS P9 LETTERS P10 RACING P12 SPORT P12 P13 P14

Star 20/9/93

IMF loans for SA expected soon

Washington — The International Monetary Fund is likely to be in a position soon to provide financing to South Africa now that apartheid is being dismantled, a senior IMF official said yesterday

"I hope that very soon we will be able to contribute to the financing of South Africa," he told reporters "We . see immense problems to tackle in the near future " (156)

The IMF official said that an "enormous" international financing effort will be needed to help South Africa cope with its difficulties

Help for South Africa is expected to be one of the issues discussed at the IMF/World Bank annual meeting starting here later this week — Sapa-Reuter.

'IMF is ready to boost economy', says Mandela

Sowetan 27/9/93

■ **LOAN REQUEST** Top delegation may visit SA at very short notice:

156

THE International Monetary Fund was prepared again, after years of economic sanctions against South Africa, to provide financial assistance, African National Congress president Mr Nelson Mandela said in Washington at the weekend

He was speaking after a "very positive" meeting on Saturday with the IMF managing director Mr Michel Camdessus, a day after the ANC leader's call for the lifting of economic sanctions

"They have made it very clear they are prepared to fund us," a smiling Mandela said in an interview immediately after the meeting between ANC and IMF delegations

He said the ANC had discussed "the programme of development assistance which we feel is absolutely important for us to arrange for South Africa"

The hour-long meeting at one of Washington's top hotels would be followed up with a more detailed one, Mandela said the SA Government and the ANC have been involved in talks with the IMF in recent months in a bid to secure an 850-million US dollar loan to service the country's depleted balance of payments

An IMF spokesman yesterday denied speculation in the media that the IMF would grant the 850 million US dollars "within days"

Mandela wins cash boost

Sowetan 27/9/93

ANC leader Mr Nelson Mandela has won a pledge for $850 million in IMF aid, securing badly needed funds for South Africa's troubled economy

Treated like a head of state in Washington, Mandela found that his plea to tear down economic sanctions against South Africa was being met with swift action in the West

International Monetary Fund managing director Mr Michel Camdessus said after meeting Mandela that he was eager to channel within days the first multilateral assistance to South Africa since sanctions were first erected in the early 1980s (156)

"I look forward in the following days to the preparation of the first disbursement from the IMF to compensate for the dramatic drop in exports," Camdessus said

Mandela told the United Nations last week that it was time to repeal sanctions against South Africa as the country moves towards democracy and elections next April

While the United States and the European Community have already lifted most restrictions on trade, the appeal from Mandela — who spent 27 years in jail for his opposition to apartheid — clears the way for badly-needed investment — *Sapa-Reuter*

EC pitches in

(156) ARG 29/9/93

NEW YORK. — Foreign ministers of the European Community states agreed in New York to work with the World Bank and International Monetary Fund to restore "normal" relations between South Africa and those institutions British Foreign Secretary Douglas Hurd said it was "crucial to the South African economy" that it had access to these funds — The Argus Foreign Service

IMF's R2,7-bn helping hand

□ Political factors, however, remain absolute key to prosperity, warn economists

BRUCE CAMERON (151) ARG 29/9/93
Business Staff

SOUTH Africa's till has been ringing madly this week Promises of billions of rands to come in investment and aid with the lifting of sanctions The IMF to make available another $800 million (R2,7-bn) Debt repayment stretched out over the next eight years

After the doom and gloom of an economy torn apart by the dying years of apartheid and the first unstable and violent years of political transition, it all seemed like excellent news

Economists this week agreed it was good news, but warned there was a long way to go before the economy was firmly pushed back on the path of growth

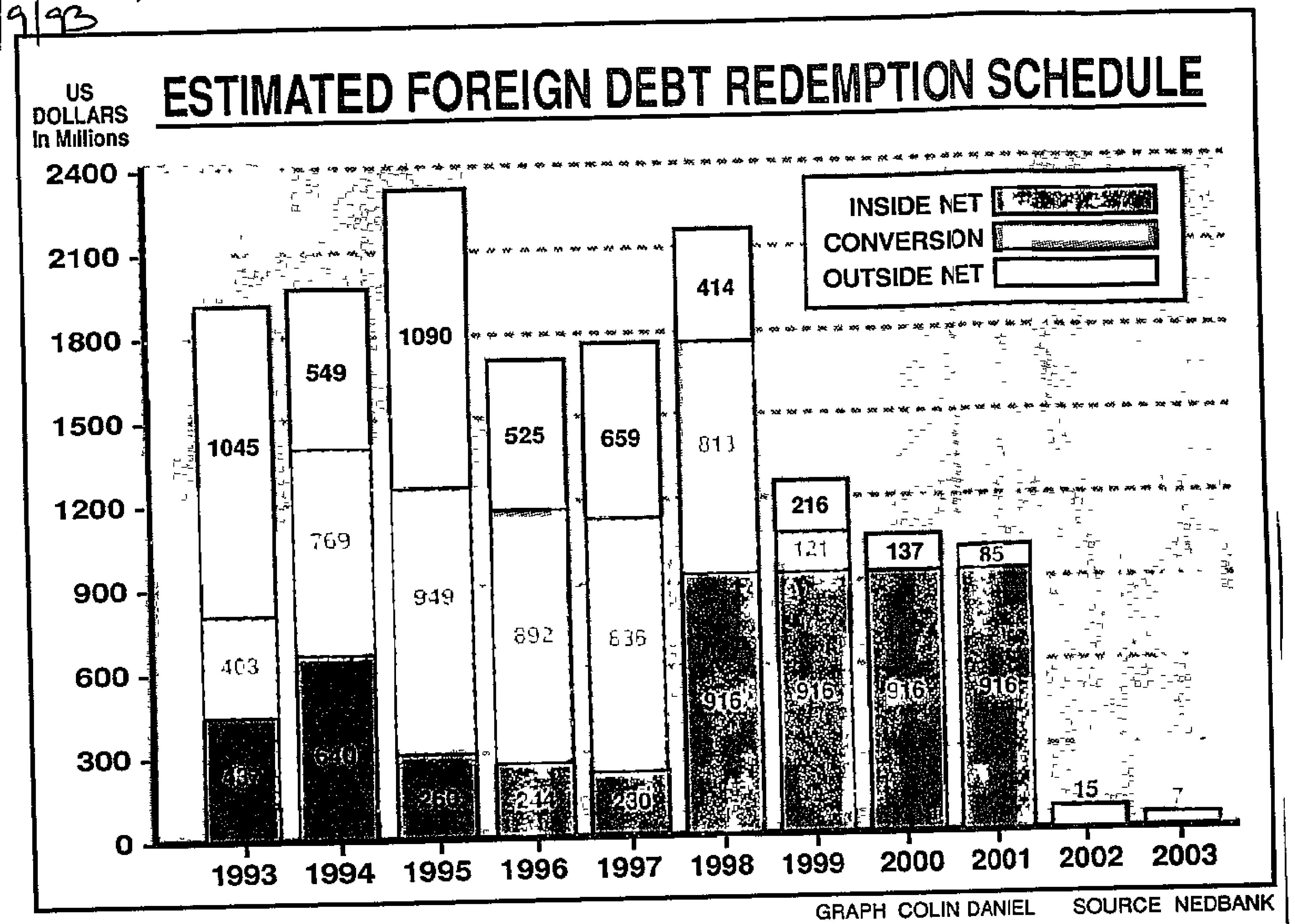
They mostly agree that it is not so much the economic factors, but the political factors that will bring the confidence required to realise the internationally accepted, enormous potential of the South African economy

This feeling was reflected in the financial markets For example, the value of the commercial rand did not make any significant changes yesterday while the overall index on the Johannesburg Stock Exchange rose by only 65 points on the day — this against the 100 points lost last week

The market was reflecting what Nedbank chief economist Edward Osborn told a group of business people in Cape Town this week "We are still terribly vulnerable"

The economy remains at the mercy of how much money is in the kitty and the threat to the country's reserves by foreign banks wanting their money out, foreign investors who get cold feet every time another gruesome political murder appears on a television screen, and South Africans, fearful of the future, squirrelling away as much as possible — out of the country

Mr Osborn points out that it will take a "seachange" in confidence to get to the position where a majority of people want to invest in South Africa and where people want to leave capital in the country



GRAPH COLIN DANIEL SOURCE NEDBANK

THE BIG PAY-OFF: South African debt is divided into three categories Debt within the moratorium, debt which was inside the moratorium, but was converted into longer-term debt which is now starting to fall due and has to be paid, and debt which was never in the moratorium and has generally been rolled over with new loans In the bar charts, it is estimated how much has to be paid every year to clear the debt after the conclusion of the final debt arrangement announced this week

The final debt arrangement announced by Finance Minister Derek Keys to repay debt to foreign banks frozen by the government in 1985 is still going to be a costly affair

Next year the country faces total debt repayments of more than $1 5 billion (R5,1 billion) while foreign and gold reserves for August this year were valued at only R7,03 billion The current figure is equivalent to the cost of imports for 1,4 months Sufficient reserves to meet three months of import payments are considered to be preferable

It is because of this precarious position of the country's reserves that the Reserve Bank governor cannot get rid of the financial rand or lower interest rates

The position is better than it looks on paper The debt agreement was drawn up on conditions ruling earlier this year and the government would have been unlikely to have gone along with it unless it was reasonably sure of meeting the commitments

On top of this the reserves are unlikely to be down to less than R2 billion next year because of the lifting of sanctions, and more particularly because the lifting of sanctions has opened the door to borrowing from the International Monetary Fund

A loan of $800 million from the IMF is all but signed, halving the amount the country needs to find The IMF loan was not taken into account by the Reserve Bank when the deal was negotiated with the foreign banks

But the problem is not restricted to The bankers stood their ground

A major advantage of the lifting of sanctions and access to the IMF will be the easing of pressures for South Africa in the international capital markets The effect of the access is the same as giving security to a banker manager for a personal loan

This will make it easier for South Africa to borrow new money, and at cheaper rates In the end it is highly unlikely that the debt will be repaid within eight years

If the pressure is not relieved, growth in the economy — Mr Keys is sure it is coming — will be restricted rapidly Imports in plant and equipment will go up The Reserve Bank will counter with increased interest rates which in turn will depress the economy again

It is also the threat to the reserves that curtails the scrapping of the financial rand system which was initially set up to stop an even greater flood of capital out of the country at the time of the debt standstill

The financial rand is currently worth 21 percent less than the commercial rand in dollar terms At the end of 1991 the gap was down to eight percent when it looked like there one year's repayment There was a total of $17,3 billion outstanding debt at the end of last year This amount has been scheduled for repayment over the next eight years What makes the problem even greater is the constantly devaluing of the rand against the dollar Since the beginning of the year the rand has lost 11 percent against the dollar

In rand terms South Africa now owes R59,17 billion The falling value of the rand also affects interest payments, which are now effectively at more than 20 percent

Mr Osborn said the troubled reserves position was in part caused by Eskom and Telkom repaying foreign loans this year They were not prepared to pay the high premium for foreign money

South Africa did successfully re-access the foreign capital markets in August 1992 with a DM400 million followed by an Ecu issue paying a premium above the German benchmark issues of 160 basis points (1,6 percentage points)

After the slaughter of Boipatong the premium shot up to 300 basis points but has since settled back to 220 to 230 basis points.

Also, the bankers exacted tough terms from South Africa for being prepared in the latest round of negotiations to stretch the $5 billion still caught up in the freeze placed on debt in 1985

The interest premiums on the debt have been increased by between 0,25 percent and one percent Sources involved with the negotiations said the ANC in fact objected strenuously to the tough conditions, which also included a "bullet" or one-off opening payment of R500 million. The government negotiating team went back to the bankers saying that agreement they had sought from all major political players to the arrangement would be difficult to conclude without an easing of the terms would a painless and rapid transition to a democratic government After Boipatong the gap opened to almost 40 percent in the scramble to take money out of South Africa

Last week before all the good news announcements this discount was 25 percent

Mr Osborn estimated that if the financial rand were scrapped today the value of the commercial rand would drop by about 50 percent sending shock waves through the economy

He pointed out that the financial rand would be around for some time until there was more confidence in the economy and the discount between the two units had closed significantly.

The fears of capital outflows have also been increased because the financial rand has not only been used as a disinvesment vehicle but also as an investment vehicle

Mr Osborn estimates that there is about R30 billion invested in South Africa by non-residents which could leave the country if things went wrong and the financial rand was not in place It is the loss that people would suffer by withdrawing money through the financial rand that keeps the money in the country

The financial rand system will also blunt the beneficial effects of increased investment

Investments made by fund managers on the Johannesburg Stock Exchange will come through the financial rand and not through the commercial rand In other words these investments will not contribute to the country's reserves

The investment money that will contribute to the reserves will be investments in new factories or bricks and mortar This type of investment is not volatile but it is also more difficult to get

Mr Osborn said it was unlikely that large amounts of money would come in the short term

IMF, World Bank hail transition

World praise for new SA

Star 29/9/93

15b

EC trade sanctions to be lifted as international community readmits SA with open arms

Washington — Heads of the International Monetary Fund and the World Bank lavished unprecedented praise on South Africa last night, and declared their eagerness to see vast sums invested in what is now being hailed as the world's newest emerging democracy.

"We are well prepared to invest in peace," World Bank president Lewis Preston said in his opening address to the the Bank and International Monetary Fund's annual meetings in Washington.

And IMF managing director Michel Camdessus told the gathering of the world's most influential financial figures that South Africa's transition process was an example of progress towards peace and stability

As the financiers were speaking, the last trade and financial sanctions against South Africa were crumbling in New York.

▶ More reports – Page 5

British Foreign Secretary Douglas Hurd said at the United Nations that the European Community would lift remaining trade embargoes on Monday. He and fellow EC foreign ministers pledged to work with the World Bank and the IMF to restore "normal" relations with South Africa.

Preston said South Africa's reintegration into the global community had created an unprecedented challenge to the development lending institution, and the World Bank was working with all the South African parties to design a programme to address the country's most urgent developmental needs.

"This programme, obviously, is contingent on political change making development possible for all her people As (Nelson) Mandela recently indicated, this is now happening," Preston said.

The World Bank has conducted four studies on the South African economy over the last two years with the co-operation of analysts from the Government, political parties and the private sector.

Finance Minister Derek Keys and ANC economics head Trevor Manuel, along with other political groupings, have been working closely over the last five months in presenting a consensual South African view on key economic issues.

The initial reaction from some South African delegates attending the IMF-Bank meetings has been to downplay the necessity of World Bank monetary aid.

"We are going to be very careful about what loans we contract We are not going to solve our problems by throwing money at them," Manuel told reporters "We are not im-

▶ To Page 3

World praise for the new SA

Star 29/9/93

15b

◀ From Page 1

pressed by the record of these programmes in Africa."

Analysts say as many as a third of the World Bank's projects on the continent fail, while its strict policy measures cause considerable hardship to the local populace.

Keys quoted a Development Bank of South Africa research paper as finding the country would probably not need development funding from the Bank for the next two years.

Camdessus said in his opening address: "We are meeting at a time of considerable concern about economic difficulties in many parts of the world."

But, he said, the world could draw inspiration from southern African countries which had created new opportunities for their economies. — Sapa, Staff Reporter, Star Foreign Service.

Keys sure of IMF loan

CT 29/9/93 (156)

Business Staff

MINISTER of Finance Mr Derek Keys said he expected to have "no difficulty" in obtaining an International Monetary Fund (IMF) loan, addressing the National Foreign Trade Council in New york yesterday.

Keys said that the country would be able to satisfy the IMF that "sufficiently good housekeeping would be in place".

"This facility also exists in concept to cater for precisely the set of circumstances caused by SA's drought," he said

The World Bank and the International Monetary Fund are standing by to lend much-needed money to South Africa. It is up to the Republic to say how much, reports ***Peter Fabricius*** *in Washington*

Star 8/9/93

Money for the taking, and it's urgent

156

After some 27 years in the cold, South Africa will soon be able to borrow money from the IMF and World Bank again.

The question now, say sources within the two institutions, is no longer how much will South Africa get but how much it should ask for. An embarrassment of riches, it seems, for South Africa, which is struggling a little to answer the question.

The IMF has offered for starters a hefty one-off special $850 million (R2 864 million) loan — mainly to compensate for the loss of foreign exchange caused by the drought — which could be in South Africa's pocket before the end of the year.

But the South African parties have been battling behind the scenes for months to decide whether they want the loan, known in IMF jargon as a "compensatory and contingency financing facility", or CCFF.

There is some urgency. The offer expires on December 31.

International finance sources warn that if South Africa does not get the loan it will look either incompetent in the eyes of international financiers or at odds with the IMF, both bad news for further investment.

The CCFF would not come with many strings attached. The conditions would probably be rather broad — a general commitment to hold down Government spending and not impose crippling taxes.

The World Bank is also waiting a little anxiously for South Africa to say what it wants. It has already done a vast amount itself.

It has sent in several fact-finding missions to assess development needs, has written several reports, helped launch the country's biggest poverty assessment survey, with 16 universities participating, is supporting a three-year programme to help South African universities run courses in development management and sponsors six South Africans to come to its Washington headquarters every six months to gain on-the-job development experience.

But, until very recently, the bank was fretting that South Africans had done very little themselves to get development policy in place or begin the laborious engineering and technical work which is required for large scale investment.

Now, at last, the Development Bank's Wiseman Nkuhlu has put together a task force to do this, raising a sigh of relief in the bank.

Somewhere between euphoria about billion-dollar bonanzas and sober contemplation of the conditions attached, South Africa seems bemused by its first re-encounter with the IMF and the World Bank.

What, indeed, should it ask for?

"We should not be viewed as the cavalry coming over the hill to save the day," cautions Alun Morris, co-ordinator of the 20-person South Africa team at the World Bank.

His views largely echo those of sources in the fund.

"The South African economy with its large private sector has tremendous potential if civil stability and investor confidence can be restored, and the main players can agree on fiscally-sustainable development programmes.

"The World Bank should be viewed as a useful adjunct to that process.

"The new government will have to assess to what extent it can finance its own needs and for what it needs loans.

"The World Bank and others will be interested in assessing South Africa's capacity for helping itself. The bank is doing a lot of predictions of growth and so on to figure out what the Government and private sector can sustain, and what it needs from the external financing community."

He notes that very few countries entering the development sector have the sophisticted private sector, financial institutions and infrastructure, such as railways, ports and cheap electricity, that South Africa does.

Balancing that are tremendous problems, especially the lack of expertise at bringing the masses into the economy, an expertise which the bank is well-qualifed to provide.

"South Africa is decades behind some Latin and Asian countries in the art of both getting growth and also getting that growth to the masses of people."

Overall, Morris sees the bank getting involved slightly at first and then more deeply as mutual trust develops.

At the IMF, South Africa would qualify for the IMF's standby loans which provide foreign exchange to deal with balance of pay ments problems.

From the World Bank it would also qualify for broader adjustment credit.

These adjustment loans are the ones which give the IMF and the World Bank the image of hard-hearted loan sharks.

Many regard the conditions as the economic equivalent of medieval bloodletting; remedies which are more perilous than the maladies they are intended to cure.

Some South Africans are ready for a CCFF or bank project finance, but are wary about taking the next step.

Forces on the Left fear the tough disciplinary measures will hit the poor hardest and sow political disruption.

On the Right — and that includes elements within the Government — there is the traditional conservative resistance to anything perceived as foreign meddling and some suspicion of what is regarded as a redistributive tendency in the World Bank.

And there is also concern that asking for IMF and World Bank help will brand the country as a basket case.

There is also a more sophisticated fear in parts of the Government and the private sector — and in the bank and fund — that South Africa should avoid going further into hock in the future.

There are those who feel South Africa should have access to the bank and fund facilities to inspire confidence in private investors, but not use them.

But there are others, both inside the Government and out, who advise that South Africa should seek a greater involvement with the IMF and World Bank, and do it quickly.

Bad news for big spenders

FM 1/10/93

World economic recovery will not be as robust this year, or next, as the IMF expected in its May forecast But there will, according to its latest forecast, be growth of 2,2% this year — against 1,7% in 1992 — rising substantially in 1994 to 3,2%

Most of the fund's downward revisions were to forecasts for industrial countries, with the exception of Britain this year (up 0,3%), upward revisions were largely in forecasts for the developing economies, with the exception of those in Africa

The fund has sharply criticised the lack of fiscal discipline in industrial countries, which it feels is preventing interest rates declining sufficiently and labour markets clearing adequately The two phenomena are, of course, related

The cost of the lapse in economic disciplines, in the last few years of the Eighties, is proving politically expensive The resulting asset inflation, and subsequent and necessary deflation, have had consequences that are proving difficult to overcome — despite the lowest level of inflation in 30 years in the industrial countries

There have been other complications, such as the huge cost of the reunification of Germany and dislocations in the economies — which are in transition — of Eastern Europe and the former Soviet empire

The fund's diagnosis is that industrial countries are spending too much, particularly on social security as unemployment rises This, in turn, requires a higher level of interest rates to sustain the funding than would otherwise be needed This is inimical to growth

The extent of social security benefits is also preventing labour markets adequately reflecting the costs of declining demand The unemployment rate in Europe is expected to exceed 12% next year and, while largely cyclical, there are concerns that absorbing the newly unemployed will become progressively more difficult (156)

GDP in the industrial countries could be as much as 3,5% higher — or about US$600bn more — if unemployment could be reduced by 5% in those countries where it exceeds 5% of the economically active population Unemployment benefits, the fund says, accounted for about 3,5% of total government spending in the industrial countries in 1991 and this has increased substantially

It suggests more effort is needed to reorientate government spending from passive income support to active labour market policies that emphasise education and training

Rejects argument

The fund rejects the argument that unemployment is caused by excessive competition and too rapid technical change Its points out that competitive labour market forces in the US, Japan and Canada have been sufficiently strong to ensure that cyclical increases in unemployment have been subsequently reduced It argues that unemployment reflects inflexible labour markets, insufficient technological progress and competition in sectors protected from market forces

In Europe, the fund notes, what amounted to inappropriate exchange rate policies had constrained the ability of some countries to ease monetary conditions and lower interest rates The fund claims that experience has shown that a decisive factor in the necessary adjustment, after a fall in economic activity, is the ability to ease monetary conditions and, thereby, to lower debt servicing costs and limit nonperforming assets in the financial system

The fund believes the three fiscal stimulatary packages in Japan should help to support world economic activity this year and next But it points out that the main thrust of economic growth will come from developing countries, especially those in Asia and Latin America

They will collectively bring up aggregate output among developing countries by 6% this year and 5,5% next

Unfortunately sub-Saharan Africa, along with the former collectivist economies now in transition, is likely to show little progress

In all the rapidly growing countries, market forces have increasingly been allowed to allocate resources, through price liberalisation, financial market reforms, outward orientated trade policies, exchange market unification and convertibility These are the measures the Uruguay Round is attempting to return to the industrial countries

A critical lesson learnt from developing countries, the fund says, is the need for high rates of domestic savings — which on average finance 95% of investment in the developing world — in combination with adequate returns on domestic investment That reduces the risk of debt traps

The fund contends, now that inflation has been licked in the West, a more serious attempt to reduce unemployment would be appropriate It suggests that, while business is growing, appropriate macroeconomic, trade and structural policies can be mutually reinforcing and ought to bolster confidence, increasing growth and employment and safeguarding low inflation

Grim Reaper reflects real doubts about IMF

(156)

ARGT 2/10/93

Weekend Argus Correspondent

WASHINGTON — Inside, it was all glitter and hope for emerging nations, release from poverty, job creation

Outside the Sheraton Washington Hotel, two figures protested against IMF policies, one of them dressed as the Grim Reaper

They symbolise the rising tide of criticism that is bedevilling the 48th annual IMF and World Bank meeting in Washington

The opening ceremony was impressive More than 2 000 delegates from 176 countries crowded the ballroom with its wall of national flags

World Bank president Lewis T Preston said the bank was ready to move quickly to help economic development in the Israeli-occupied territories, South Africa and Vietnam

It had been working with all parties in South Africa to design a programme to address the most urgent needs

"This programme is obviously contingent on political change making development possible and as Mr Mandela recently indicated, this is now happening"

But not everybody shares his faith There is uneasiness about IMF policy and disciplines afflicting many organisations — among them the ANC

Mandela and the ANC's Trevor Manuel have expressed reservations about accepting help from these two powerful institutions

Prominent South African businessmen at the conference are uneasy for a different reason

Said one "To reject IMF and World Bank support is akin to trying to run the country without overdraft facilities"

Others said a continued flow of resources was essential to maintain the confidence of international lenders

"It will also impose economic discipline on a future government"

The IMF view is that those African economies that are growing are ones following IMF-supported programmes

Poverty reduction is the World Bank's stated objective Supporters claim its development programmes make it uniquely suited to assume the lead in co-ordinating international donor support for countries such as South Africa

IMF managing director Michel Camdessus stoutly defends the fund's role in Africa and IMF-supported programmes

But his critics say that borrowers end up poorer than before and hopelessly indebted, once they have sought aid

A recent Oxfam report says that after a decade of IMF structural adjustment programmes, Africa remains trapped in a downward spiral of economic and social decline, while poverty increases

Oxfam has called for the IMF's role in Africa to be reviewed and for the IMF to write off part of Africa's debt

The World Bank, too, is under fire after former World Bank vice-president Willi Wapenhans issued the Wapenhans Report, which questions the bank's priorities and its "pervasive pre-occupation with new lending"

World Bank policy of basing much of its lending on readiness to adopt "structural adjustment" is also attacked

The policy requires countries to make macro-economic reforms, which include devaluation, overhaul of tax systems, open markets and more exports to improve current account balances

But the Oxfam report claims that not only has the World Bank not significantly affected economic growth, it has even contributed to a drop in investment.

In his attacking opening speech, Mr Camdessus said industrial countries faced unemployment, anaemic growth and weak fiscal positions, while the developing world showed uneven economic progress

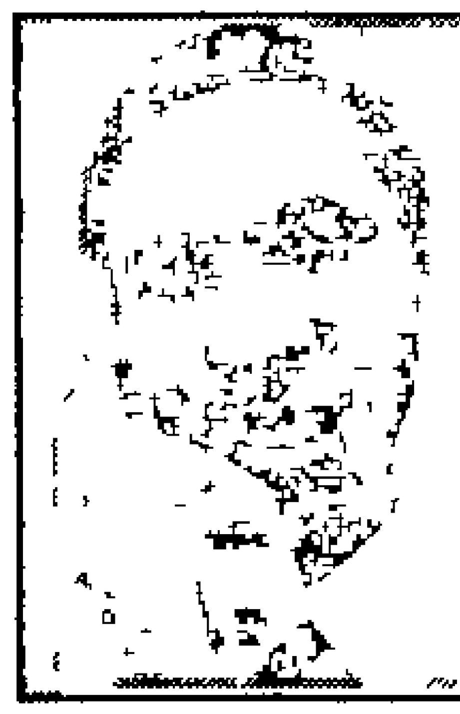
"When we think of Africa — when we consider the human cost of its civil and ethnic wars, of its famines, of its two decades of decline in incomes per capita — do we not see a sinking continent?"

focus on Economy

Sowetan 4/10/93

The IMF and World Bank are stumbling over themselves to offer loans to South Africa. Using independent African countries as an example, Mzimkulu Malunga looks at the pros and cons of accepting such an offer.

156



WITH THE NORMALISATION OF South Africa's international economic relations, one of the key issues the country's technocrats have to address is a policy on interaction with the International Monetary Fund and its sister institution, the World Bank.

This factor became apparent last week when a contingent attending the annual meetings of these two institutions could not reach consensus on whether to accept a loan offer from the World Bank.

Economists of all disciplines know that this country cannot afford to turn its back on prospective funding from either of these Washington-based banks.

It is estimated that the country needs in the tune of R4 billion to cater just for about 400 000 new job-seekers who leave school every year.

Figures released by the Reserve Bank suggest that unemployment is growing at alarming proportions and more money will have to be spent to create jobs.

Even Trevor Manuel, head of the ANC's economics department, was quick to put context to his earlier remarks that the issue of a World Bank loan was "not on the agenda" when he noticed the noise it sparked.

Manuel later clarified his organisation's position as being its unwillingness to support blind borrowing which could result into a debt burden for the country.

Total debt

Currently, South Africa's total debt stands at around $18 billion, yet by international standards the country is said to be "under borrowed".

While dealing with both the bank and the fund is a reality that the country has little room to avoid, the major point of debate is the level of interaction with these institutions, particularly when the loans come loaded with stringent conditions.

Some, particularly in government circles, are in favour of an economic structural adjustment programme under the auspices of the bank.

But on the other hand, there are those who argue that South Africans must agree on an economic restructuring programme and identify the priorities before they can even think of involving outside forces.

Soon the country will be receiving about R2,9 billion from the IMF which will be used to alleviate the effects of last year's drought.

In this particular loan, the major condition is that South Africa should write a letter to the IMF undertaking to pursue sound economic policies and will be cautious when it comes to overspending.

But in future the conditions which have come to be know as "harsh medicine" could be a lot harsher.

"Officials of the IMF and the World Bank are quick to point out Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries"

However, the ANC's deputy head of economics, Tito Mboweni, is confident that South Africa can efficiently handle the IMF and World Bank.

He says the only time these two institutions intervene directly into the running of a country's economy is when their loans are not paid back on time.

World Bank

"We must manage our economy in such a way that we do not put ourselves at the mercy of the World Bank," he argues

Mboweni says he does not foresee a possibility of loans form IMF and World Bank to South Africa exceeding 10 percent of the national budget.

But economists such as the director of the Institute for African Alternatives, Ben Turok, argue that leaders such as President Robert Mugabe of Zimbabwe and former Presidenet Julius Nyerere of Tanzania used to believe their countries had what it takes to keep the fund and the bank at bay.

Today it does not need a schooled economist to relate the hardships brought by Washington-tailored economic structural adjustment programmes in those two countries

Despite more than a decade of "harsh medicine" in many African countries, the continent is yet to show an economic tiger that African can be proud of.

Writing in one of the bank's newsletters recently, two economists working for the institution admitted that it would take another 50 years before, for instance, an average Ghanaian crosses the poverty line, unless drastic steps are taken to nurture that country's economy

Officials of these institutions are always quick to point out to Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries.

Often people have taken to the streets in a number of African countries as the food prices go up after removal of government subsidies

And their currencies become useless following a heavy devaluation process as the Washington-cooked economic medicine makes its presence felt.

But the institutions are not without their own form of ammunition to counter criticism

"To put blame on the doctor who is trying his best to resuscitate a dying corpse is wrong," counters Mr Isaac Sam of the World Bank.

The IMF and the World Bank were established after World War 2 to help Europe and Japan recover from the devastations of the conflict.

The IMF was formed to help countries minimise the fluctuation of the value of currencies and problems relating to volumes of exports against those of imports — commonly called the balance of payments

During the '50s and '60s when more countries gained their independence, the bank's facilities were extended to those states.

Today the World Bank Group comprises the International Bank for Reconstruction and Development, which gives loans to countries where income per person averages about R2 500 a year, the International Development Association, giving concessionary loans to poor countries, the private sector arm International Finance Corporation; and the Multi-lateral Insurance Guarantee Agency, which underwrites private sector investment in risky projects

Agreement expected on IMF loan

KELVIN BROWN

GOVERNMENT expected to reach final agreement on the IMF $850m standby facility in the next few days after an IMF team arrived this week, Finance Ministry sources said yesterday. B/B04

Minister Derek Keys said government, the ANC, PAC and the Inkatha Freedom Party had reached agreement on the final letter of intent that would accompany the application. 5/10/93

The IMF delegation would study this letter before deciding whether to give final approval to the application (156)

SA needs the $850m drought-related loan to help shore up its foreign exchange reserves, severely affected by the large increase in agricultural imports after last year's drought The country currently has only enough reserves to cover five weeks of imports The Reserve Bank has consistently stated that three months of import cover is needed before it can contemplate relaxing monetary policy

Keys dismissed speculation that the loan was delayed after the IMF rejected an initial letter of intent in Washington. He said it was usual IMF practice to discuss the exact details of the letter with the country concerned

● See Page 6

IMF sees slow recovery

(156) WM 1-7/10/93

Alex Brummer

UNCERTAINTY and underperformance in the locomotive economies of the United States, Japan and Germany will mean a slow and very tentative recovery for the industrial countries, according to the International Monetary Fund's World Economic Outlook report released this week

All the main forecasts for growth among the Group of Seven (G7) and industrial countries have been sharply downgraded with currency turmoil in Europe seen as a key factor

In the European exchange rate mechanism "slow progress in reducing interest rates" has "delayed recovery and could provoke further slippages in fiscal policy", the IMF warns.

The stagnation in the West and near hyper-inflationary conditions in the former Soviet Union also have hit confidence in the reforming economies of central Europe

Despite the mammoth G7 effort to support Russia, its economy remains chaotic. Inflation in the former Soviet Union is put at 940 percent this year.

The brightest hope on the world economic scene is seen among the countries of the developing world Much has been written of the remarkable performances in the Chinese economic area as well as the renaissance in Latin America. What is more interesting is the IMF assessment of sub-Saharan Africa — a region generally seen as doomed to low per capita growth and poverty.

The report notes that among the 16 African countries which have pursued reform policies, taking advantage of the IMF's own structural adjustment programme, output will increase by 4,5 percent in1993 and is expected to continue at that rate in 1994 — The Guardian

IMF: SA deal 'days away'

CT 5/10/93

Own Correspondent

JOHANNESBURG. — The government expects to reach final agreement on the IMF $850m standby facility within the next few days after an IMF team arrives this week, Finance Ministry sources said yesterday.

Finance Minister Mr Derek Keys said the government along with the ANC, PAC and IFP had reached agreement on the final letter of intent that would accompany the application

The IMF delegation would study this letter before deciding whether to give final approval to the application

(56)

Aid 'will see rand devalue'

156

Own Correspondent

EAST LONDON. — Aid from the International Monetary Fund would result in the rand being devalued, a leading businessman warned last night.

Mr Nic Frangos, chairman of Datacor, told a meeting of the South African Institute for International Affairs that involvement in the IMF would inevitably have repercussions on the value of the rand.

"At present the rand is grossly over-valued."

However, he was positive about the future and was encouraged by the ANC's openness.

International bodies under fire

No orchids for World Bank

Star 30/9/93

156

BY CLAIRE GEBHARDT
Reporting from the World Bank/IMF meeting

Washington — Inside, it was all glitter and hope for emerging nations, release from poverty and job creation.

Outside the Sheraton Washington Hotel, two figures protested against IMF policies, one of them dressed as the Grim Reaper.

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But not everybody shares his faith. The ineffectual protesters symbolise the uneasiness about IMF policy and disciplines afflicting many organisations — among them the ANC

Mandela and the ANC's Trevor Manuel have expressed reservations about accepting help from these two powerful institutions

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But the Oxfam report claims that not only has the World Bank not significantly affected economic growth, it has even contributed to a drop in investment.

In his attacking opening speech, Camdessus said industrial countries faced unemployment, anaemic growth and weak fiscal positions, while the developing world showed uneven economic progress.

"When we think of Africa — when we consider the human cost of its civil and ethnic wars, of its famines, of its two decades of decline in incomes per capita — do we not see a sinking continent?"

Camdessus said those developing countries that had not progressed must strive, with the support of the international community, to implement the policies that had achieved success. These were:

- Sound macro-economic policies.
- Development strategies making the most of a competitive market system.
- A liberal trade and exchange regime
- Social policies to alleviate poverty and slow down excessive population growth.
- Good governance, public accountability and a fair legal framework.

$850-m drought relief cash available before year's end

SA looking good — IMF

Star 12/10/93

(156)

BY CLAIRE GEBHARDT

The IMF's $850 million facility for South Africa will almost certainly flow before the end of the year — and that's from the horse's mouth

International Monetary Fund (IMF) managing director Michel Camdessus has gone on record as saying that the country's standing has never been higher and that the delay in the signing of the letter of intent is fully understood by the international community

Statistics

The issue of the drought-related relief was highlighted again yesterday with the arrival of an IMF delegation to compile annual statistics on South Africa and make needed recommendations before transfer of the funds can take place

The IMF attitude was explained to me when I shared a table with Camdessus at a lunch to mark the the close of the 48th Annual IMF/World Bank meetings in Washington.

Camdessus took the opportunity to dispose of the notion that South Africa's tardiness in accepting the drought-related Compensatory and Contingency Financing Facility (CCFF), first offered to President FW de Klerk in June, was regarded as a setback.

THE IMF and World Bank will continue to monitor developments in South Africa and continue their research into economic conditions

"There is great sympathy and understanding internationally for the lengthy process involved in getting all parties to agree on economic issues"

Though Camdessus pointed out that the IMF was not a charitable organisation — "We don't just hand out money, there are certain conditions to be met," — he confidently expected consensus by all political parties to be reached shortly

"The money will almost certainly flow before the end of the year"

Camdessus said the international community had welcomed South Africa back into the fund.

Investors appeared to have factored in the risk of more violence in the run-up to the election next April in assessing the country's economic prospects, he said

He said the IMF and World Bank would continue to monitor developments in South Africa and would continue their research into economic conditions

South Africa's letter of intent, which must accompany the application for the $850 million loan, has already been drafted

It now awaited signature by the Transitional Executive Council (TEC), which would presumably be in operation in November, Frankel Pollak Vinderine economist Mike Brown said yesterday.

Brown said the timing of the application was critical in order to replenish the country's foreign exchange reserves

Eligibility

"If the money is not granted by the end of the year, South Africa's eligibility for assistance of $850 million will be reduced to about $560 million"

Though there has been market speculation that the loan will be used to finance the $500 million bullet payment in February 1994 under the new Debt Standstill Agreement, Brown said it was unlikely that the money would come in and go out again almost immediately

"It's more likely that the debt will be rolled over, given the current optimistic climate"

Michel Camdessus . . not a setback

IMF's R2 bn loan to flow by year end

(156) ARG 12/10/93

The Argus Correspondent

JOHANNESBURG — The International Monetary Fund's R2 billion loan facility for South Africa will almost certainly flow before the end of the year.

IMF managing director Michel Camdessus said that the country's standing had never been higher and that the delay in signing the letter of intent was fully understood by the international community.

The drought-related relief issue was highlighted again yesterday with the arrival in Johannesburg of an IMF delegation to make recommendations before the funds could be transferred.

Mr Camdessus said in Washington that South Africa's tardiness in accepting the drought-related Compensatory and Contingency Financing Facility, first offered in June, was not regarded as a setback.

"There is great sympathy and understanding internationally for the lengthy process involved in getting all parties to agree on economic issues.

"The money will almost certainly flow before the end of the year," he said.

South Africa's letter of intent, which must accompany the application for the $850 million (R2,8 billion) loan, had already been drafted and awaited signature by the Transitional Executive Council, said economist Mike Brown.

Need SA fear 'rule by IMF'?

Star 13/10/93

Many people are worried that the $850 million loan (R2 890 million) from the International Monetary Fund (IMF) is the first step towards subservience to IMF prescriptions on economic policy

The loan — most of which will go to meet an initial payment of $500 million (R1 700 million) on rescheduled foreign debt — raises the spectre of African countries whose economies fell apart in the wake of IMF involvement Is the seed of democratisation in South Africa going to blossom only into an IMF dictatorship?

In the popular mind, indeed, the IMF seems imbued with unlimited power. Yet it cannot force a government to take its money or sign a "stabilisation agreement" that contains policy requirements. States remain free to accept or reject IMF loans and advice.

The current loan from the IMF imposes only limited cost on South Africa The rate of interest is low Moreover, the IMF's policy requirements depend on a country's level of indebtedness. For SA, the current sum represents a low level of debt. The IMF will insist on major policy changes only if SA seeks to borrow far more.

More generally, the IMF has four advantages in convincing Third World governments to accept its policy prescriptions

First, the IMF has the cash itself. Generally, compared with a country's foreign debt, its loans remain small In South Africa, the promised loan represents only about five percent of total foreign debt (156)

IMF loans seem most desirable to countries that need to repay loans but have a hard time raising foreign exchange from exports or other borrowers. SA does not fall into that category Its foreign liabilities remain modest. In 1989, accumulated external debt equalled over half the gross domestic product (GDP) and twice the export revenues of the Third World. In contrast, SA's foreign debt equalled only 23 percent of GDP and 70 percent of exports By 1991, SA debt had fallen to 17 percent of GDP.

We should bear in mind, however, that other African countries did not start out with unmanageable debts Nor did most pile up foreign loans to finance spending sprees

Instead, most followed a clear pattern. Like the new SA, the independent states of Africa began life with extensive poverty and inadequate infrastructure, and depended on a relatively limited number of exports. After independence, they taxed exports to expand basic services As a rule, in order to diversify the economy, they would have had to intervene more directly in investment decision-making — and the new governments of Africa, despite an interventionist rhetoric, generally avoided telling business what to do

Then the international prices of many African exports plummeted. The countries affected had either to borrow abroad or cut back on services When their debts fell due, they turned to the IMF And the first demand the IMF made was that they cut government spending.

In short, the best way to avoid IMF dictates is to avoid foreign debt. That means that we must find ways to diversify the economy and redistribute income at the same time. Two types of policy seem critical to that end We need a development stragegy that will generate jobs through an industrial policy and land reform And we must redirect government spending to benefit the poor

Catalyst

The IMF's second lever on Third World government is its promise to act as a catalyst for capital flows. If countries sign a stabilisation agreement, the IMF claims, they will open the tap for foreign capital If they refuse to sign, investment will dry up.

In the event, most studies find that the IMF vastly overrates its ability to mobilise private funds. A country only signs a stabilisation agreement with the IMF if it has major economic problems. Even with a stabilisation agreement, foreign lenders rarely find the prospects attractive. In less threatened economies, evidence suggests that working with the IMF actually has not increased foreign investment dramatically

The IMF's third lever is that its proposals give Third World elites an excuse for policies that throw the cost of restructuring on to the poor Its proposals typically combine devaluation, which ultimately cuts real wages, with paid deregulation of industry, an end to subsidies on basic needs, and sharp reductions in state spending

They virtually never include measures to redress market imperfections or failures Nor do they seek to cushion the poor against the cost of adjustment In South Africa the most obvious contribution of the IMF to policy debates was its support for the narrowing of exemptions from the VAT

These recommendations often fit in with the aim of the powerful in both the private and public sector Proposals to deregulate and cut taxes enhance the power of large-scale companies

For this reason, many Third World states have used IMF pressure to justify unpopular policies From this standpoint, the IMF provides Third World governments with an alibi, rather than a reason, for unpopular measures.

Governments may also lack the institutional capacity to develop or implement alternative development strategies In these cases, IMF policies may go through by default

In the light of South Africa's low levels of debt, the intellectual influence of the IMF outweighs its financial clout Our best way to counter IMF proposals, then, is to develop viable alternatives

Fourth, the IMF uses secrecy. It insists that governments keep its discussions and policy proposals confidential That demand empowers the already powerful, who have the most to gain from implementing IMF proposals It prevents scrutiny of policy proposals by the public or even by most local experts.

Consider the situation in South Africa We are told we need the IMF loan to help meet obligations under the new rescheduling agreement We have had no public debate on the terms of the rescheduling itself The Reserve Bank consulted with political parties — but bound them to secrecy How can we then assess whether it really got the best possible deal?

In short, the fuss around the IMF frequently works to mask domestic political debates If we wish to avoid IMF conditions in future, we need to elaborate, in a democratic manner, an effective development policy that will ensure greater equality without increasing foreign debt

■ *Dr Makgetla is an economics lecturer at Wits University*

SA likely to beat deadline for loan

ST Times (Buss)

THE International Monetary Fund expects to settle terms for the payment of a special $850-million loan to South Africa before the end of the year, writes CIARAN RYAN

The loan will shore up foreign currency reserves, down to R6,7-billion from R11,8-billion a year ago Without IMF assistance, SA faces a crippling balance of payments squeeze because of the $500-million foreign debt repayment next year. 17/10/93

Creditors rejected SA's pleas for leniency, demanding that 10% of the $5-billion outstanding debt be paid by next year

IMF representative for SA Leslie Lipschitz was in Johannesburg this week and said he was optimistic that the Transitional Executive Committee would be in place by the end of the year and would authorise acceptance of the loan (156)

A third of the loan is earmarked for drought relief Unless SA takes some of the money by the yearend, part of the loan will be forfeited. The balance of the loan will go to trade assistance.

Mr Lipschitz says that without the TEC "we are not sure who can authorise the loan. The Government cannot sign for it because in all probability it will not be in power next year."

South 22/10 - 26/10/93

ANC wary of World Bank 'generosity'

15b

THE World Bank's readiness to lend money to South Africa has received a mixed response from the major players in South Africa.

While government and business has been enthusiastic about taking money, the ANC has expressed caution.

For South Africa, the temptation is overwhelming to take the billions on offer from the Bank and its sister organisation, the International Monetary Fund (IMF), considering the huge sums needed to address pressing social problems and finance other industrial projects.

The Bank's Southern African Department Director, Mr Stephen Denning, said last week he was waiting for details of projects which need funding.

The Bank disclosed a few months ago that about R3,45 billion would be available for South Africa as loan finance.

The government argues that the country is under-borrowed and extra loans would help South Africa onto a steady growth path.

South Africa's foreign debt is currently 15 percent of its Gross Domestic Product (GDP) — or the size of its economy. Countries like South Africa usually have a debt of between 30 percent and 40 percent of GDP.

Yet, the ANC remains cautious.

Mr Trevor Manuel, Head of the ANC Economic Planning Department, said recently the R850 million Compensatory and Contingency Financing Facility (CCFF) of the IMF was enough for now.

That money was aimed at covering the capital outflows caused by the drought.

The CCFF is currently being negotiated and will probably come through towards the end of the year.

The crucial difference, for the ANC, is the conditions attached to the IMF/World Bank's finance.

The ANC is particularly concerned about the effect on the economy of the IMF's controversial Economic Structural Adjustment Programmes (ESAP).

DEREK KEYS

TREVOR MANUEL

The ANC says the strings attached to the money — the ESAPs — have worsened the economies of African countries.

Manuel says the CCFF money does not have the same conditions attached as the loans offered by the World Bank.

Instead of borrowing more, the ANC has been trying to attract foreign investment by punting the strength of the economy on international platforms, notably the World Economic Development Congress in New York last month.

It is in this area of attracting foreign investors that the ANC and the government have come to its greatest agreement on the economy.

The ANC's economic department has been working with the Minister of Finance Mr Derek Keys for about five months now on crucial areas of the economy.

The ANC says strings attached to the money — the ESAPs — have worsened the economies of African countries

The areas of agreement include proposals to reduce trade tariffs and the agreement on the CCFF.

The ANC has also paved the way for South Africa, for the first time since 1985 when credit lines were cut, to start commercial borrowings from overseas banks.

But getting attention these days is a difficult thing, especially if you're from Africa.

The competition is tough. The Latin American countries and South East Asia are still the areas in vogue for foreign investors.

Also, commercial banks are already heavily involved in Eastern Europe. In Russia these creditors are owed more than $27 billion (R81 billion), and are in arrears in interest payments of more than R3 billion.

With so much money involved, it's expected the focus will remain on these economies to make them work.

For South Africa to get an edge in this big-stakes lending, the IMF has recommended regional co-operation as a starting point to attract investors.

One thing is certain: any decision on lending will have to made jointly, if a crisis is to be avoided.

WAGHIED MISBACH

Cosatu bites the IMF's hand

By KEVIN DAVIE

ST TIMES

LABOUR federation Cosatu says it will oppose South Africa's application to the International Monetary Fund for an $850-million loan to counter the effects of drought on the economy

Cosatu secretary-general Sam Shilowa has responded to Finance Minister Derek Keys's letter of intent committing SA to a five-year programme of financial discipline — including Budget deficit reductions and wage restraints — and which has been agreed to by all parties

Government sources say the draft letter was agreed to by the Economic Technical Committee (ETC), a six-party committee which includes the National, Conservative and Democratic parties, the ANC, PAC and Inkatha Freedom Party (BUSS)

The ETC was set up as a precursor to the sub-council on finance in the Transitional Executive Council (TEC)

It has examined financial issues which require a mandate beyond the term of office of the present Government

A Government source says the draft letter to the IMF has been agreed on The draft, which will remain confidential, needs only to be updated to change certain figures, such as inflation projections

But this is disputed by ANC economics head Trevor Manuel, who claims there is "no full agreement"

Mr Manuel, a likely chairman of the sub-council on finance, declines to discuss the issue (1509)

He says "I am not going to discuss this with any journalist until I have a mandate from my principal, which I don't at this stage." (156)

Mr Shilowa says the question of wage restraint has not been raised by either the Government or the ANC

"FW de Klerk has no mandate regarding wage restraint." 31/10/93

He says Cosatu has stated its opposition to the outgoing Government's negotiating the loan from the IMF

Wage restraint will have to be discussed with unions in the National Economic Forum (NEF) Cosatu favours a high-wage economy, says Mr Shilowa

Cosatu recently told IMF representatives that it was not prepared to accept loans with conditions attached.

The timing of SA's application to the IMF is crucial because delays beyond the end of the year will reduce the amount available by hundreds of millions of dollars

A target date of November 8 has been set for sending the letter of application to the IMF

A NEF spokesman says it has not discussed wage restraint The NEF is considering its relationship with the TEC

Stals pins investment hopes on IMF

ARG 5/11/93 (156)

JOHANNESBURG — Foreign investor interest is expected to be rekindled in South Africa with political progress and the granting of an International Monetary Fund loan to the country.

Reserve Bank governor Chris Stals told the American Chamber of Commerce yesterday in Johannesburg he was optimistic the country's transition toward democracy would see further foreign investment

Furthermore, the country's first IMF loan since 1982 would not only bolster foreign reserves, but would mark South Africa's re-entry into the world financial community.

"It will be an important event when the first financial contract with one of these institutions (the IMF or World Bank) is signed.

"This will be an important signal to the private investors of the world that South Africa is now back in the fold."

South Africa was negotiating an IMF loan of $850 million under the Contingency and Compensatory Financing Facility aimed at relieving pressure on the country's drought-savaged foreign reserves.

Dr Stals pointed to visits last month to South Africa by IMF and World Bank officials, and the resumption of normal relations with World Bank agencies.

Snag in sanctions repeal could affect IMF loan

ARG 5/11/93

The Argus Foreign Service

WASHINGTON — Legislation to lift the last United States federal sanctions against South Africa has hit a snag which could delay approval until next year and jeopardise an $850 million (R2 856 million) IMF loan.

The South African Democratic Transition Support Bill will repeal all remaining federal sanctions, including the Gramm Amendment which denies access to International Monetary Fund loans.

The bill was launched by the US Senate and approved on September 24 but has been become bogged down in the House of Representatives.

Now there is a chance that the House might send it back to the Senate to begin the whole process again, according to Dan O'Flaherty, head of the US/SA Business Council.

If that happened it could introduce delays which might cause the bill not to be approved during this year's congressional session, which is expected to end on November 23.

The IMF loan has to be finalised by December 31.

IMF loan hits a new snag

☐ Repeal Bill would also lift tariffs on SA exports to US

ARG 8/11/93 (156)

JOHANNESBURG. — South Africa's controversial $850 million International Monetary Fund loan has hit another snag — this time in the United States.

While South Africa's Economic Technical Committee is still battling to get the consent of all the political parties in order to beat the IMF's December 31 deadline — reports from Washington indicate legislation to lift the last of US federal sanctions against South Africa has run into difficulties

This implies that approval of the loan, vital to South Africa's reserves in order to allow it to meet its foreign debt obligations, might be delayed until next year

The South African Democratic Transition Support Bill, which repeals all remaining federal sanctions against South Africa, including the Gramm Amendment, which denies South African access to IMF loans, has become bogged down in the House of Representatives

There is a chance the Bill might now be sent back to the Senate to begin the whole process again, according to Dan O'Flaherty, head of the US/SA Business Council — an affiliate of the National Foreign Trade Council

Mr O'Flaherty said that under the US Constitution, only the House of Representatives could introduce a revenue bill Because the South African bill was technically a revenue measure — it lifts the ban on the US giving South Africa preferential trade status, which could mean a loss in tariffs to the US — the powerful Ways and Means Committee in the House of Representatives was contemplating rejecting the bill

A new loan could in theory be negotiated, but would almost certainly be for a far smaller amount

Vital US bill bogged down in House of Representatives

Star 8/11/93

IMF loan hits new snag

156

BY CLAIRE GEBHARDT AND PETER FABRICIUS

TECHNICAL hitch could delay boost for fiscal reserves until after April election.

The country's controversial $350 million IMF loan has hit another snag — this time in the US.

While South Africa's Economic Technical Committee is still battling to get the consent of all the political parties in order to beat the IMF's December 31 deadline, reports from Washington indicate that legislation to lift the last of US federal sanctions against South Africa has run into difficulties

This implies that approval of the loan, vital to South Africa's reserves in order to allow it to meet its foreign debt obligations, may be delayed until next year

Reserve Bank governor Chris Stals said recently that any funding from the IMF would be a vital shot-in-the-arm for the balance of payments (BoP).

Even though the money would go straight into the foreign reserves and not one cent would be spent domestically, it could allow an easing of monetary and fiscal policy because more reserves would be available for a three- to five-year period.

The hoped-for access to the IMF's BoP facility also played a crucial role in persuading the governor of the Reserve Bank, Chris Stals, to cut Bank Rate from 13 percent to 12 percent on October 28.

The South African Democratic Transition Support Bill, which repeals all remaining federal sanctions against SA, including the Gramm Amendment which denies South African access to IMF loans, has become bogged down in the House of Representatives

There is a chance that the Bill might now be sent back to the Senate to begin the whole process again, according to Mr Dan O'Flaherty, head of the US/SA Business Council — an affiliate of the National Foreign Trade Council.

O'Flaherty said that under the US Constitution, only the House of Representatives could introduce a revenue bill.

Because the SA bill was technically a revenue measure — it lifts the ban on US giving SA preferential trade status which could mean a loss in tariffs to the US — the powerful Ways and Means Committee in the House of Representatives was contemplating rejecting the bill.

If that happened it could introduce delays which might cause the bill not to be approved during this year's congressional session which is expected to end on November 23.

A new loan could in theory be negotiated but would almost certainly be for a far smaller amount because the loan has been calculated to compensate for the foreign-exchange losses caused by the drought in the year up to June 30, 1993 — the worst period of the drought Any other loan negotiated would be for a lesser amount because it would cover a later period when the worst of the drought had passed.

O'Flaherty said that in theory ~~President~~ Clinton could lift the Gramm Amendment unilaterally but was reluctant to do so — and would probably not do so until the legislation was repealed.

The issue could be decided this week when the Ways and Means trade sub-committee considers the bill.

O'Flaherty also expressed concern that if the bill was held over until next year, it could encounter even further delays which might postpone it until after the April elections.

He said Congress was losing interest in the bill — and the SA issue — as the short American attention-span shifted to other places.

Some Congressional sources were saying there was no constituency for the bill — the Congressional Black Caucus which normally drove SA policy was not enthusiastic about it — and no-one else was particularly interested.

METROPOLITAN

R2,8-bn IMF loan will head jump-start for SA economy

World Bank to open offices: US, French missions coming

156 ARG 9/11/93

BRUCE CAMERON
Business Staff

THE economy is due to receive an international jump-start with American and American-based institutions focusing on South Africa

Major announcements were made yesterday which come on top of the new strong showing in the gold price, which was trading in Hong Kong today at $375,15 with speculation it could settle above the $380 mark

The announcements included

- The R2,8 billion IMF loan for South Africa is all but concluded and will bring urgently required relief to South Africa's gold and foreign reserves
- The US Commerce Secretary Ray Brown is to lead a high-powered trade delegation to South Africa
- A delegation of important French businessmen led by Francois Perigot, chairman of the French Confederation of Industries, Trade and Services (CNPF) arrives in South Africa tomorrow
- The World Bank and two of its affiliates are to set up office in South Africa bringing both development expertise and additional financing sources

The only sour note in the developments of this week has been the run on the financial rand by European investors

However, the foreign investors are the ones who were burnt when they sold their financial rand holdings as the currency dived to a six week low, losing 28c to R4,62 in trade yesterday

The reasons being given for the pullout is the uncertainty over the political process

General consensus has been reached with South Africa's main interest groups on the approval of an application for an International Monetary Fund loan of more than R2,84 billion

With the stronger gold price the IMF loan will underpin last month's one percent reduction in interest rates and will allow for greater growth in the economy next year

Argus Correspondent Claire Gebhardt reports from Johannesburg that Reserve Bank governor Chris Stals announced yesterday the World Bank and two of its affiliates would soon set up office in South Africa

He told guests at an American Chamber of Commerce (Amcham) meeting in Sandton that after the IMF/World Bank meetings in Washington, South Africa had officially joined the World Bank's Multi-Lateral Investment Guarantee Agency (MIGA)

Argus correspondent Peter Fabricius reports from Washington that US Commerce Secretary Ron Brown is scheduled to arrive in South Africa on November 27 at the head of a high-powered trade delegation which will include many of the big "Fortune 500" names of corporate America

Among the firms expected to visit with Mr Brown are Eastman Kodak, Coca-Cola, Xerox, Apple Computers, Heinz, MCI, AT and T, Time-Warner, Softsheen and Black Entertainment Television

A total of 20 to 25 companies is expected to be represented on the mission which was announced by President Clinton on September 24, after ANC leader Nelson Mandela called for the lifting of sanctions and the TEC legislation was passed

A delegation of French businessmen will pay a two-day visit to South Africa from tomorrow

Led by Francois Perigot, the chairman of the French Confederation of Industries, Trade and Services (CNPF), the delegation will also meet Finance Minister Derek Keys, business leaders, bankers, traders and representatives of the French business community the release of the October Business Confidence Index yesterday. Picture: ABDUL SHARIFF

Barber noted that Anglovaal subsidiary

rect questions of management.

Overseas holidays becoming cheaper

BDay 9/11/93

STEPHANE BOTHMA

OVERSEAS holidays will become more affordable to South Africans next year because of weakening European currencies and the effects of the worldwide recession on the international hospitality industry.

Prices had already fallen in rand terms, Insight International Tours international marketing director Chris Newman, currently visiting SA, said yesterday.

Portugal, Spain, Italy, Britain and Ireland had been hardest hit by currency fluctuations, making tours to those countries more affordable for South Africans.

"In the US the dollar has strengthened against the rand, but this has been offset by the effects of the recession. Hotel prices have tumbled and operators have been able to negotiate extremely reasonable rates," Newman said.

Insight SA GM Ockie Fourie said travel agents had reported massive growth in the number of South Africans travelling overseas this year. Sales were up 60% off an already sizeable base, he said.

"This is partly attributable to increased competition between airlines seeking to break into the SA market following the lifting of sanctions. This has seen air fares tumble to 1986 levels, making travel a lot cheaper."

Despite the tough economy, the first-class travel market had been firm, although growth had been limited. There was strong growth in the lower cost sector.

IMF satisfied with SA economic consensus

BDay 9/11/93

GRETA STEYN

THE IMF was satisfied that enough consensus existed between the key political parties and Cosatu on sound economic policies to go ahead with granting the Contingency and Compensatory Financing Facility, assistant director for Africa Leslie Lipschitz said yesterday.

Speaking in a Worldnet satellite link-up arranged by the US Information Services yesterday, he said there was "little to suggest" that anything would go wrong when the IMF board met at the end of the year. There was agreement between the different groupings on the bottom line on government spending, although of course there was disagreement on priorities.

The IMF had had talks with government, parliamentary parties, the ANC, PAC, Inkatha and Cosatu. The groups had then been brought together in a multilateral forum and, individually and together, had agreed on the need to avoid a debt trap.

On SA's economic outlook, he said the IMF believed SA had the potential for an economic miracle of southeast Asian proportions. However, structural change would be necessary on several fronts. On the fiscal front, SA's deficit of 7% of GDP could be reduced only by two percentage points as a result of a cyclical upswing, while the effect on unemployment would also be small. "The SA economy is not amenable to expansionary stimulus from fiscal and monetary policy," he said.

World Bank vice-president for Africa Edward Jaycox said he wanted to "plead for an early involvement in SA by the bank. The sooner the better". SA had to identify projects and ask for funds. (156)

Jaycox noted the ownership of major productive assets was closely held and probably not politically sustainable. The bank was looking at mechanisms to ensure a more equal ownership of productive assets. Land reform and anti-trust policy could be part of the policy package. Anti-trust policy would have to be studied with a view to arriving at a less concentrated ownership structure.

Jaycox was emphatic SA would not have access to "soft" finance from the bank. The criterion was an income per capita of less than $700, while SA's was $2 500.

Questioned on conditions attached to loans, Jaycox said conditionality was usually a problem only in countries whose economies had been "run into the ground". Lipschitz added it was often a case of "shooting the messenger" but said policy programmes had to be designed and owned by a country, otherwise they fizzled out.

● See Page 10

Swedish models for SA — via Volvo

EDWARD WEST

VOLVO Car Corp is to resume sales of its cars in SA early next year through an agreement with Combined Motor Holdings (CMH), CMH chairman Maldwyn Zimmerman said yesterday.

The Swedish car maker has decided to re-enter the local market with two top-of-the-range Volvos, the 960 and 850, after quitting SA in the 70's for political reasons, he said. BDay

CMH, which has motor dealerships with Nissan, MMI, Delta, Mercedes-Benz and Toyota franchises, would form a wholly owned subsidiary to distribute the fully built imported cars in Johannesburg, Pretoria, Durban and Cape Town. 9/11/93

Although the prices of the cars had not yet been determined, they would be competitively priced compared with other models of similar specifications.

Volvo Cars intercontinental president Helge Alten said initial sales volumes were expected to be low by European standards, but longer-term sales prospects were good.

Zimmerman said initial sales targets had not been established. The decision to import only top of the range Volvo cars was taken because high tax and import duties precluded the viability of importing fully built vehicles of lower specification, he said.

IMF's loan in jeopardy

ARG 10|11|93

The Argus Foreign Service

WASHINGTON — Moves are under way to circumvent a problem that is delaying passage of legislation here to repeal remaining United States federal sanctions. The delay could jeopardise an $850 million drought-compensation loan from the International Monetary Fund to South Africa.

But the moves could mean that South Africa stays a little longer on the list of countries denied preferential trade status in America.

This emerged yesterday when the trade subcommittee of the Ways and Means Committee in the House of Representatives discussed the SA Democratic Transition Support Bill.

The bill contains two measures of some importance, it repeals the Gramm Amendment, which forbids the US government from supporting IMF loans to South Africa; and it scraps the section of the Comprehensive Anti-apartheid Act which forbids South Africa applying for preferential trade status in the US.

Because the preferential trade provisions have revenue implications, they technically make the South African bill a tax measure.

This complicates matters and threatens to delay passage of the bill until next year. It could also mean the IMF not granting the loan

Last minute talks avert Cosatu strike

152

CT 11/11/93

Own Correspondent

JOHANNESBURG. — A planned national strike on Monday by the Congress of South African Trade unions was apparently averted late last night after an agreement was reported to have been reached between the government, the ANC and Cosatu.

Minister of Manpower Mr Leon Wessels said the ANC and the government had reached an agreement in principle that should avert Monday's threatened general strike.

He told reporters that last-minute bilateral discussions had arrived at a formula meeting Cosatu's objections to a lockout clause in a proposed bill of fundamental rights.

Mr Wessels said the proposed agreement provided for the right to strike for collective bargaining but that nothing in the bill of fundamental rights would preclude a lockout

According to earlier reports, Cosatu's executive committee decided unanimously yesterday to go ahead with its one-day national strike on Monday to underscore its demands for changes to the interim Bill of Rights.

Cosatu general secretary Mr Sam Shilowa confirmed however that discussions were continuing and if an acceptable agreement was reached before Monday, Cosatu would call off the strike.

Other industrial action, including strikes, would be taken until unions' demands on the constitutional right to strike and the deletion of the lockout clause from the bill had been met

Jacobs, Turok clash over role of IMF

Political Staff CT 19/11/93

SHARP differences about the role of the International Monetary Fund (IMF) emerged yesterday after former Cape MPC Mr Ben Turok accused it of eroding South Africa's sovereignty

Dr Japie Jacobs, Special Economic Adviser to the Minister of Finance, rejected the criticisms and said the IMF was the lender of last resort when member countries had budget deficits

Dr Jacobs said at a workshop in Strand organised by Stellenbosch University that the IMF was not prescriptive but it was critical in its approach It had praised South Africa's monetary policy but was critical of its policies on foreign exchange

Mr Turok, director of the Institute for African Alternatives, said a World Bank representative said recently the bank had been "a destructive force in Africa" and the IMF had been worse.

156 258

Unions warn against loans

Political Staff

TRADE UNION federations Cosatu and Nactu warned yesterday against foreign loan agreements, and expressed suspicions about the motives of the International Monetary Fund (IMF). (156)

Cosatu's Mr Tony Ruiters said the federation viewed the signing of a $850 million (about R2,89 billion) IMF loan with concern and "deep worry about the conditions attached to IMF loans".

CT 20/11/93

IMF team to assist in overhaul of SA customs system

From GRETA STEYN 156

JOHANNESBURG — An IMF team would arrive in SA in January to help overhaul the country's customs system which was not succeeding in keeping track of all import duties and export subsidies, Finance Minister Derek Keys said yesterday CT 23/11/93

He told a Johannesburg Chamber of Commerce and Industry luncheon that trade policy initiatives to adjust import tariffs and export subsidies depended "critically" on whether the customs system was working well "From an organisational point of view, it is the single most important thing I have to put in place," Keys said

The General Export Incentive Scheme (GEIS) and tariffs on imports required that goods going in and out of the country be subject to fundamental inspection There was, however, proof that goods were slipping through the net The National Economic Forum had asked government to improve the customs system and the request was taken seriously

According to an NEF report, the short-term working group had noted deficiencies in the customs and excise infrastructure. It noted substantial imports of manufactured goods that had escaped the duty net, resulting in a number of jobs being lost in local industries. The leakages had been caused by staffing and infrastructural deficiencies and fraudulent behaviour

Keys also said SA's success as a trading nation depended on getting three sets of prices right — the rand exchange rate, the prices of imported inputs, and labour He would not give up "the battle" on wage costs in the NEF, as there were hardly any exceptions to the rule that countries could build economic growth without low labour costs.

He noted one of the key differences between the ANC-aligned Macroeconomic Research Group ((Merg) and government's Normative Economic Model was the emphasis the latter placed on export growth He warned Merg's advocacy of a demand-stimulus would lead to a balance of payments crisis if exports growth did not keep pace with imports

He said the NEM's policies would create jobs and provide sustainable growth through investment in human capital,' the building of a socio-economic infrastructure and export-orientated industrialisation

IMF/WORLD BANK

ARG 1/12/93 (156)

Holding the purse strings

HARRY SCHWARZ, South Africa's Ambassador to the United States, advocates using new opportunities to borrow money from world finance agencies to satisfy post-election social expectations

TO some, funds from the International Monetary Fund and the World Bank are regarded as opportunities for reconstruction of the economy, safeguarding the balance of payments and obtaining much-needed projects

Others regard them as endeavours to dictate terms, manipulate the economy and impose conditions which inhibit growth and strangle the self-government of people.

South Africa has not had facilities from either institution for many years The time has, however, arrived where we can apply with hopes of success to both institutions

South Africa expects to receive 850 million (about R2,9 billion) before the end of the year from the IMF through a Compensating and Contingency Financing Facility (CCFF) — a facility to provide finance to members of the IMF with export earnings shortfalls and increased cost of cereal imports

This facility becomes available to South Africa as a result of the drought which turned the country from a food-exporting country into a food-importing country and is designed to help the balance of payments which, as a result, was adversely affected

It is not a donation or a grant, but a loan for up to three years and it bears interest at an attractive, though market-related rate.

In South Africa's case a letter of intent has been agreed upon not only by the government but as a result of consultation with the representatives of the major political parties in the negotiating process and some outside it On available information, it contains no unacceptable conditions

The IMF has as its objectives the expansion of international trade and the promotion of high levels of employment It seeks exchange rate stability, and so provides balance of payments assistance

It does not fund particular projects, but provides technical assistance and training, carries out consultations on the state of the economy of individual member countries, and, in particular, seeks to encourage its members to engage in the reconstruction of their economies and to adhere to sound economic guidelines

Reconstruction is not easy, and there has been much criticism of the sacrifices and politically difficult decisions which have to be made to achieve needed long-term benefits In recent years the IMF has been increasingly understanding of these problems but the messenger with bad news is never welcome

The World Bank provides money for quite different purposes through a number of subsidiaries with particular objectives The facilities are normally much longer term than those of the IMF and they are directed to address poverty The finance is for particular purposes — not to address balance of payments problems

The World Bank's IFC subsidiary operates in a slightly different field It assists private enterprise projects, while other subsidiaries deal with guarantees for projects in underdeveloped countries and help to the poorest nations

The IMF's conditions are readily identifiable Many apply to growth, import restrictions, public sector (particularly deficit) spending and current account deficits

In the case of the World Bank, achieving macro economic stabiity is obviously also an objective, but poverty alleviation is in the foreground and while the IMF deals with country situations, the World Bank is project or sectoral related The World Bank conditions are therefore more localised and may be perceived to be less stringent

There are as many critics of the IMF as there are of the World Bank, and already there is, in South Africa, fear of economic rule by the IMF and World Bank There are also critics of particular World Bank projects elsewhere in Africa, where there have been some failures — but also many successes

There are important advantages to taking up these facilities

- The CCFF facility to be granted has few conditions Yet it would not harm to have some stern advice on good government budgeting
- Standby facilities are important if there is to be adequate access to world capital markets
- There is no reason why the cost of reconstruction should be borne by the poor if IMF or World Bank facilities are accepted

Experience has shown the two bodies that political instability due to economic hardship will not enable effective reconstruction activity

In the nature of the post-election situation, the crisis of expectations of the mass of the people needs to be addressed There has been too long a delay in selecting World Bank projects and commencing planning and design It takes up to two years for money to flow and show results

There appears to be competition as to which political group should get credit for obtaining facilities and investments. If this is so, it should be remembered it is the people who suffer

We need to remember that we have to encourage investment — real investment which addresses the urgent needs of deprived people The World Bank is the most substantial and most important external source of money for social upliftment

Certainly, we need private foreign investment but this will be regrettably slower in coming, more selective and profit-oriented

Go-ahead for IMF loan bid

156

CT 8/12/93

Political Staff

THE Transitional Executive Council (TEC) has given its support to an application for a R2,9-million loan from the International Monetary Fund to cover "balance of payment outflows caused by the drought".

The TEC authorised co-chairmen Dr Dawie de Villiers and Mr Pravin Ghordan to co-sign the letter to the IMF with Finance Minister Mr Derek Keys

It is to be forwarded to the IMF with the required Statement of Policies.

In a statement last night, Mr Keys said the TEC's approval meant South Africa had fulfilled the IMF's condition for its considering the loan — the formal confirmation of multi-party consensus on the basis of the loan application.

He said the IMF's board of directors would consider the application on December 22

The loan was being sought in terms of the IMF's Compensatory Contingency Financing Facility to "cover the balance of payments outflows caused by the drought", Mr Keys said

By relieving the pressure on the balance of payments, the funds would contribute to the country's economic well-being and prospects for growth

The loan would be repayable in five years and would have an interest rate of seven percent

Application for IMF loan gets TEC nod

Star

Cape Town — The TEC yesterday passed a resolution approving SA's application for an $850 million IMF loan.

The letter formally applying for the loan was accompanied by a memorandum and statement of policies (a Letter of Intent) to the IMF, which commits the country to sound macro-economic and monetary principles.

According to the TEC-approved document, South Africa would start repaying the loan three-and-a-quarter years after its disbursement.

The repayments would be made in eight equal instalments and the interest rate would be based on the IMF's special drawing rights' rate, currently around 4,13 percent.

The facility is expected to bolster foreign reserves, ravaged in 1992 by the high food import bill caused by the drought. 8/12/93

Foreign reserves currently cover only about five weeks of imports instead of the internationally accepted three months of imports.

The IMF loan will ease heavy foreign debt commitments. (156)

Under the final arrangement of foreign debt within the standstill net, R1,8 billion must be repaid to creditor banks next February.

A lesser sum is due in August.

Together with other foreign debt maturities next year, total repayments could exceed R6 billion.— Sapa.

IMF to meet soon on big SA loan bid

156

ARG 9/12/93

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON — The International Monetary Fund board of directors will consider South Africa's application for an \$850 million (R2 850 million) contingency loan on December 22, the South African embassy said here

It was commenting on the decision by the multiparty Transitional Executive Council at its first meeting this week to apply for the loan

The IMF board's approval of the application is considered a mere formality as the organisation has already made it clear it favours the loan but has so far been waiting for full agreement among South African parties to apply for it.

The loan is to cover balance of payments outflows caused by the drought

IMF agrees to grant R2,9bn loan to SA

CT 23/12/93 By SIMON BARBER (156)

WASHINGTON. — The ANC has agreed to adopt a "cautious fiscal and monetary stance" once in power next year, the IMF indicated yesterday in officially approving South Africa's first borrowing since 1982.

The fund's board unanimously voted to grant South Africa's request for a $850 million (about R2,9 billion) drawing under the IMF compensatory and contingency financing facility.

The fund said the loan would help compensate for a shortfall in merchandise export earnings and an unexpected increase in cereal imports.

The term of the loan is five years.

R2,9bn gives SA a major boosting

ARG 23/12/93

The Argus Foreign Service

WASHINGTON — South African investment received a major boost today when the International Monetary Fund unanimously approved an $850 million (R2,9 billion) loan and major United States investment banking firms announced their return to South Africa

Merrill Lynch and Lehman Brothers, two of the world's biggest investment banking firms announced they would immediately lift their restrictions on doing business with South Africa

And it emerged that several other large Wall Street investment firms such as Goldman Sachs, Smith Barney, Kidder Peabody and Bear Stearn, had also begun trading with South Africa over the last few weeks without formal announcements.

International sources said the IMF loan was a signal to international investors that South Africa was a safe place to invest.

Mr John Marsh, president of Saicor Securities, a Wall Street firm specialising in South Africa, said the IMF loan would also improve the investment climate by strengthening the financial and commercial rand and by taking off the pressure on South Africa to keep up interest rates to attract foreign investment

He forecast an "exponential" boom in US investment because of the involvement of big Wall Street firms and said his only concern was whether there was enough product in South Africa to satisfy demand

South Africa formally returned to the world of international financial organisations yesterday when the IMF Board unanimously approved South Africa's application for a $850 million "compensatory and contingency facility" (CCFF) mainly to compensate for loss of export earnings and excess cereal import costs as a result of the 1992/1993 drought.

The loan was South Africa's first from the IMF since 1982 and will help the country over its current foreign exchange problems.

Lehman Brothers, one of the world's largest investment banking companies, announced yesterday that it would immediately lift its restrictions and begin doing business with South Africa

A spokesman for another large Wall Street investment firm, Goldman Sachs, said yesterday that the company had formally lifted its restrictions on South Africa business last week without announcing it.

Wall Street sources said Bear Stearns, Kidder Peabody and Smith Barney had also resumed business with South Africa but this could not be confirmed

● American computer giant IBM is returning to South Africa after pulling out seven years ago

After months of speculation, IBM revealed it will pay R110,5 million for a 24 percent stake in Information Services Group (ISG). ISG is the holding company of ISM, which was formed by a management buyout when IBM disinvested

$850m IMF loan will go into foreign exchange reserves

BDay 24/12/93

KELVIN BROWN

THE IMF is to pay over its loan of $850m to SA on Tuesday, giving the country's gold and foreign exchange reserve figures for December a major lift of just under R3bn.

The IMF board unanimously approved SA's application for the loan earlier this week under the IMF's compensatory and contingency financing facility to help shore up foreign exchange reserves badly hit by the drought and poor commodity prices. This is the first time the IMF has given SA credit since 1982.

Finance director-general Estian Calitz said yesterday the loan proceeds would be paid almost exclusively in US dollars. The funds would be held with the Reserve Bank and would go into the country's foreign exchange reserve pool.

"It will not be available to finance domestic spending, but by strengthening the country's foreign reserves it will alleviate the balance of payments constraint, especially during 1994, and indirectly contribute substantially to improved economic conditions."

(156)

Repayment of the loan will be made in eight equal instalments over a two-year period starting in March 1997.

The loan would help compensate for a shortfall in merchandise export earnings and an increase in cereal imports during the year to June 1993, Calitz said.

SA was forced to import about 1-million tons of maize in the year to June 1992. Another 3,3-million tons had to be imported the following year, replacing usual exports of about 1,2-million tons a year.

Earnings from exports of minerals such as gold and platinum also declined sharply due to lower world markets, Calitz said.

He was optimistic that the loan would relieve the balance of payment constraint, especially next year when R6,8bn of debt inside and outside the standstill net was due to be repaid.

The IMF loan is unlikely to be used to finance the $500m bullet foreign debt payment that falls due in February under the fourth debt arrangement. Bank Governor Chris Stals dismissed claims earlier this year that the IMF loan would be wiped out by the bullet payment. "The Bank has access to foreign credit facilities that we will probably use to make this payment."

IMF loan 'not enough' to offset capital outflows

156 CT 28/12/93

By ARI JACOBSON

THE International Monetary Fund's (IMF) loan of R2,8bn to SA, which is in the process of being drawn down by the government, will not be enough to offset capital outflows in the fourth quarter of the year, according to economists

Old Mutual economist Ursula Maritz pointed out that capital outflows in the third quarter of this year measured some R5,3bn

She added that predicting capital outflows in the final quarter was not possible, but said that the trend could be ascertained by October's foreign reserves — which were up slightly — and by looking at November's reserves, which remained constant.

This she said indicated that there had been "pressure" on the reserves from capital outflows because the current account had been buoyant over these months

Foreign reserves are determined by the flows into and out of the current account (from exports less imports) and into and out of the capital account.

Maritz mentioned that the R2,8bn IMF loan would not be enough to "off-set the potential outflows" for the quarter but would help December's foreign reserve situation

She sees SA foreign reserves increasing from about R2bn to about R2,8bn, based on the benefits of the loan

However there will be an added strain on reserves from February as the government pays back some $500m caught inside the standstill net.

A market source said that this debt may not affect SA reserve position because the government may "seek finance offshore".

He said that "there have been no other big loans" coming into the country at present

He added that the foreign reserves position would continue to be a major worry going into 1994

I. M. F.

1994

IMF loan to Ivory Coast approved

WASHINGTON — The IMF approved a three-year concessional loan of about $467m to support economic reform in Ivory Coast.

The money, made available under the Enhanced Structural Adjustment Facility, will be initially disbursed in two equal semi-annual instalments totalling $167m starting on March 18, the IMF said on Friday. B/Day

Since 1985, the Ivory Coast's economy has deteriorated as a result of falling world prices for its exports and the appreciation of the CFA franc, which was devalued early this year. Other problems include a relatively high level of wages and other costs. 14/3/94

The IMF said the Ivory Coast government aimed to achieve positive economic growth in 1994 followed by an increase in output of about 6% in 1995 and 1996. (156)

Prices would surge temporarily in early 1994, it said, following the devaluation. However, inflation pressures should be quickly controlled as stabilisation policies take hold, the IMF said.

The impact of structural reforms in the labour market, the private and public sectors, and eliminating obstacles to foreign trade, will be offset by social safety net measures. — Sapa-Reuter.

An economic policy package designed to promote confidence

BDay 24/3/94

This is an edited version of the statement of economic policies signed by the TEC and sent to the IMF at the end of 1993. The letter, which the IMF keeps secret, was a prerequisite to the $850m loan.

(156)

SOUTH Africa stands at a historic watershed. The first multiracial elections are scheduled for April 27 1994. The stage is now set for more openness to international trade and investments, with the benefits flowing to all.

☐ Political and constitutional progress occurred against a backdrop of difficult domestic economic circumstances and an increasingly severe balance-of-payments constraint. Government and the TEC are determined that the political transition not be allowed to founder on economic developments Therefore, their macroeconomic strategy is aimed at a resumption of investment and growth, a consolidation of the progress against inflation, and a sustainable balance of payments.

☐ Macroeconomic developments in SA have been disquieting. The recession, which began in 1989, has been more harsh than any other since the 1930s Equally troubling has been the drop in gross saving and investment ratios. On the positive side, inflation has been reduced.

In part, the present dire circumstances are related, both directly and indirectly, to the historical system of apartheid Severe race-based distortions in the labour market and disparities in education were exacerbated by the breakdown of segments of the educational system Since 1985, financial sanctions have compelled SA to restrain demand, and rising uncertainty resulting from the political transition and violence has persuaded domestic and foreign entrepreneurs to adopt a wait-and-see attitude to investments.

Exogenous factors have exacerbated matters further The 1992 drought reduced real agricultural production 25%, and terms of trade and foreign exchange reserves have deteriorated steadily.

☐ Monetary policy has carried much of the burden of SA's adjustment during the 1990s In the past four years real interest rates have generally been positive, and in the past three years the growth of broad money and bank credit extended to the private sector have been negative in real terms An easing of monetary policy would have risked a further undermining of confidence and a resurgence of inflation

☐ To redress social backlogs, SA's economic policies must be driven by the objective of durable growth in which all can share equitably This will require political stability and a package of macroeconomic and structural policies that addresses the problems of high unemployment and weak investment, respects financial constraints, and promotes confidence in the country's economic management.

☐ On fiscal policy, despite the pressures for additional expenditure that will arise in transition, there is widespread understanding that increases in the government deficit would jeopardise the economic future of the country At the same time, it is recognised that unless social needs are addressed in a responsible manner, sociopolitical and economic stability would be difficult to sustain

☐ Fiscal policy in 1994/95 will aim at lowering non-interest recurrent expenditures to 22,5% of GDP (as against slightly over 23% in the 1993/94 budget) and reducing the central government deficit to about 6% of GDP. This fiscal framework will seek to continue the process involved in the reduction of the budget deficit — from 8,5% of GDP in 1992/93 to a projected 7% in 1993/94.

Given the importance of maintaining a competitive tax structure, it will emphasise expenditure containment rather than raising taxes

The budgetary situation will be helped by a post-apartheid fiscal bonus, although these savings will be small in relation to total expenditure. Also, government is committed to containing the public service wage bill, consistent with no real increase in wage rates

The attainment of the quantitative fiscal objectives will require further reordering of government priorities Steps to reallocate expenditure away from defence will be continued as far as is feasible. The resources thus freed could contribute to further redressing the social backlog

☐ The thrust of SA's monetary policy during the past year will be maintained during 1994. Stronger than projected economic activity and a build-up in reserves and a strengthening of the rand would warrant a more accommodating stance.

The influence of the monetary targets on interest rates, the exchange rate, and the real economy will depend on a variety of factors: most importantly, wage developments, fiscal policy, and confidence in the economy as reflected in capital flows and exchange rate expectations. With realistic wage settlements, a realisation of fiscal objectives and a restoration of confidence, the monetary targets will be consistent with lower interest rates and higher investment.

Internal adjustment can promote employment and investment in a non-inflationary environment. An understanding of these issues has been fostered by the National Economic Forum.

The SA labour market is distorted by enormous inequities in the distribution of education and job skills. At present levels of productivity, it will be impossible to absorb the vast number of unemployed workers at even a modest living wage.

The medium-term solution is to boost productivity by improving education and training. For the immediate future, government and the social partners have already embarked on a discussion of policies designed to couple wage restraint and training to foster investment and promote employment.

The role of government will depend chiefly on moral suasion and on leadership in setting civil service wages sensitive to the magnitude of unemployment.

The balance of payments position will remain difficult in 1994. A sustained capital inflow would ease the resource constraint, reduce the pressure on external reserves and eventually facilitate an ending of capital controls and the financial rand mechanism. However, a spontaneous surge in capital inflows cannot be counted on initially. In the meantime, therefore, although there will be no intensification of exchange restrictions, the financial rand mechanism will be retained.

☐ Finally, trade and industrial liberalisation will be an important part of the restructuring of the economy.

The protection system will be simplified and rationalised. Import licensing and non-tariff barriers will continue to be phased out. The revised industrial tariff structure offered to GATT would reduce the number of tariff lines by two thirds It would also represent a trade-weighted average cut in the maximum level of tariffs by one third

Formula duties would be phased out as new anti-dumping legislation and systems become effective and the restructuring of the economy progresses. Provided the balance of payments situation is under control, the import surcharge will be eliminated by mid-1994.

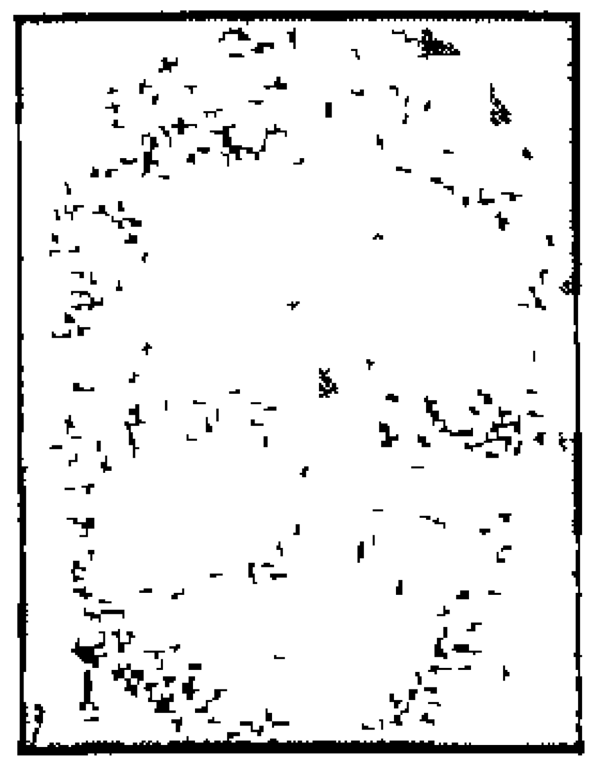
GEIS currently serves as the main instrument by which the policy-induced anti-export bias is offset. However, in conjunction with tariff reform, the system of duty drawbacks and rebates is being streamlined to allow exporters freer access to imported inputs at world prices.

Progress towards this end will create a climate conducive to the phasing out of GEIS.

focus on the economy

Sowetan 18/4/94

The International Monetary Fund and World Bank, which lend money to countries all over the world, came under fire at a conference held in Johannesburg at the weekend. **Political Editor Mathatha Tsedu reports:**



The main issues that will confront the new government after the coming elections will centre on the provision of jobs and housing

The parties that are given a chance to win significant numbers of votes, such as the African National Congress and the National Party, have hinged their ability to meet the demands on the influx of foreign funding

This funding is mainly from the International Monetary Fund and the World Bank

Already, the two bodies have approved loans of over R850 million for South Africa The loans were requested by both the ANC and the NP Government

A conference organised by the Azanian People's Organisation and the Paris (France) based International Liaison Committee for a Workers' International held in Johannesburg at the weekend, looked at the effects of IMF and WB activities in African countries and found them wanting

Drawing from the experience of 15 African countries that were represented and in whose countries the IMF and WB have instituted Economic Structural Adjustment Programmes, the conference found that the two bodies were responsible for the misery that grips Africa today

SA being mortgaged

Delegates said countries were being mortgaged to the IMF and WB, and the South African delegations asserted that the R850 million loan meant that South Africa was being mortgaged even before the reform process transferred political power to the historically disenfranchised blacks

In Burundi, where poverty and hardship have led to endemic wars among the citizens for scarce resources, the country spends over 60 percent of its gross national product on debt repayments to the IMF

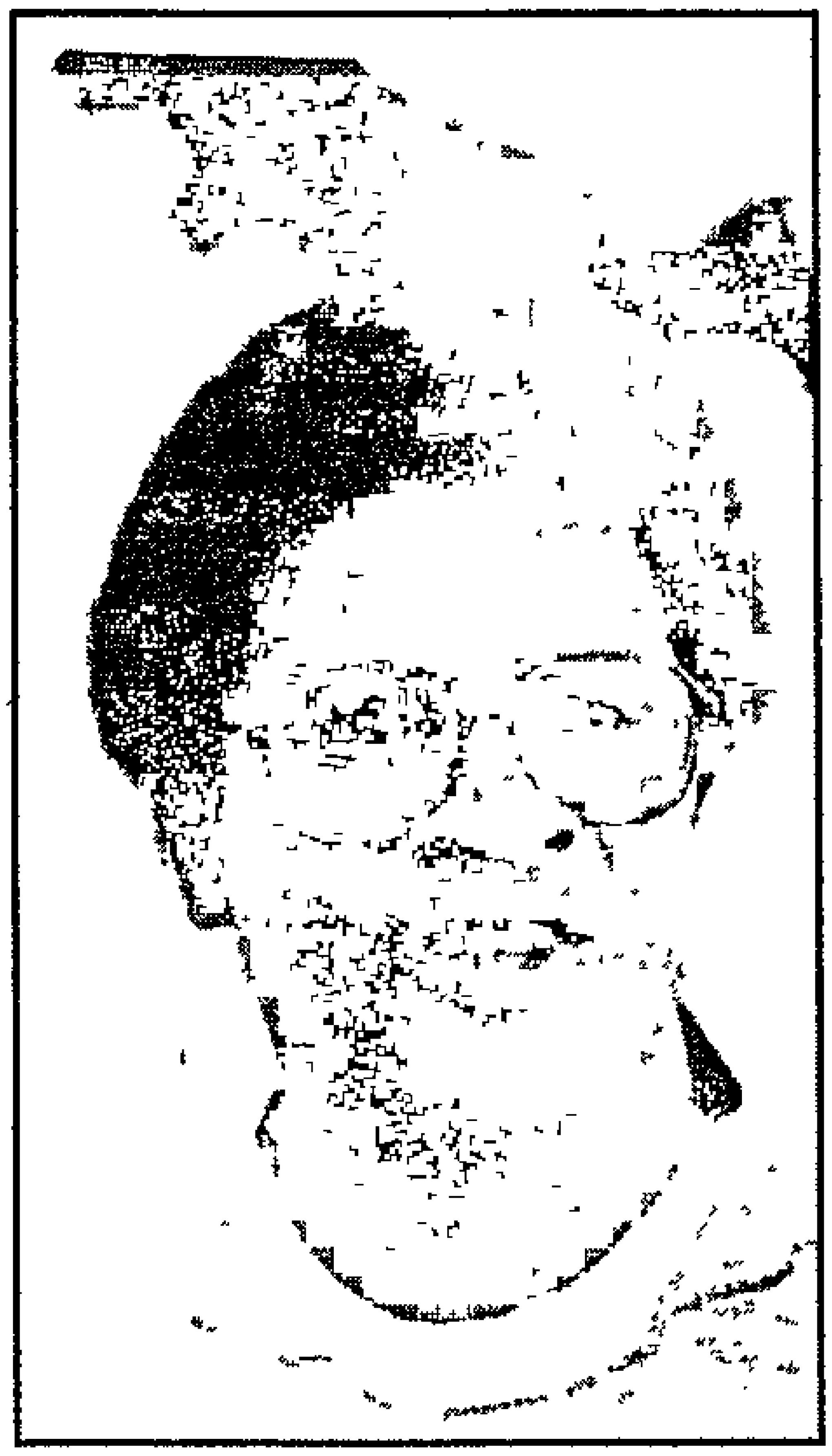
In neighbouring Rwanda, the situation is even worse, but statistics are a national secret and cannot be divulged The figures, however, are said to exceed those of Burundi

The IMF and the WB were accused by delegates of creating pauper states that were forever dependent on loans that they could not repay

But it was the Economic Structural Adjustment Programmes that came in for a hammering from the delegations, which represented trade unions from the 15 African countries and France

The ESAPs, it was said, went hand in hand with devaluing the local currency, cutting back on subsidies on food, reducing state expenditure through mass retrenchments of civil servants, and the wholesale closure of local firms to make way for imports from countries controlling the IMF and WB This was a recipe for instability, they said

Zimbabwean delegate Mr T Mashakada of the Zimbabwe Congress of Trade Unions said



Azapo deputy president Mr Pandelani Nefolovhodwe.

(156)

adjustments being dictated to African states by the IMF have hampered the establishment of true democracy because they have led to poverty and suffering for the majority of Africans

While the general thrust of the ESAPs was to "reduce or eradicate internal and external imbalances and achieve more efficient resource allocation through trade liberalisation and economic deregulation as well as privatisation", Mashakada said this had not happened

"Rising inflation and unemployment as well as declining incomes have always been hallmarks of ESAPs In fact, all ESAP policies — devaluation, trade liberalisation, economic deregulation, price decontrol and subsidy withdrawal — tend to accelerate the inflationary spiral and contribute to growing political, social and economic instability," he said

The promises of growth never materialise and "all that can be noticed is the increasing indebtedness of African countries as ESAPs take their toil", he added.

Safety nets provided for in the programmes in the form of social dimension funds do not cope with the devastating effects of ESAPs, and it all adds up to the dislocation of the moral, social and political fabric of society

Azapo deputy president Mr Pandelani Nefolovhodwe said the IMF and WB had already got their hold on South Africa through guarantees that loans made by the apartheid regime to finance its oppression of black people would be honoured by the new government.

He said agreements reached ensured that the IMF and WB would continue the "plunder of the Azanian economic resources This then is the decisive linkage between the present reform process and the two international bodies

Blacks on receiving end

"The mission has been completed and black people in Azania, just like in many parts of the Africa, are going to continue to be on the receiving end of this national and international conspiracy," Nefolovhodwe said.

He said the IMF connection meant that the new constitution, however noble the intention of the party in power, would fail to deliver and that black people in particular would remain in bondage

It was pointed out that the IMF was insisting that the subsidy of over R200 million each year to the motor industry should be phased out This would mean locally manufactured vehicles would be more expensive than imports, and would lead to a decline in the industry and loss of jobs It would, however, boost imports of cars made in Europe, Japan, and the USA which are areas that control the IMF and WB

The conference called for trade unions to be vigilant and to fight ceaselessly against IMF intrusion in their countries

While local trade unions were represented, the major federations, Cosatu and Nactu, were absent. The conference deplored their absence and called for a major drive to publicise the effects of the IMF on workers interests

It became clear, however, that the issue, important as it is to all here, had not caught the imagination of people who saw the promises of the election campaign as real promises of a brighter tomorrow (Report by M Tsedu, 61 Commando Road, Industria West, Johannesburg)

IMF in bullish outlook

WASHINGTON — The head of the International Monetary Fund said yesterday that while vast problems remain, the outlook for the global economy has turned brighter

MD Michel Camdessus, meeting with reporters as the spring gathering of the IMF and World Bank began, said also that the stage has been set for preparing additional assistance to Russia to back up a $1,5bn loan approved on Wednesday

"The outlook for world activity and world stability has improved," Camdessus said, adding "Now our collective effort will be to join forces to promote a more broadly based recovery in growth and employment in the world"

The IMF unveiled its semi-annual examination of the world economy on Wednesday, showing it is poised to stage its best performance in six years in 1995 (186)

Specifically, the report said that the overall economy would grow by 3,7% in 1995 following a 3,0% expansion this year It grew by 4,7% in 1988

Camdessus generally defended the commitment of the Russian government to reform

— Sapa-Reuter CT 22/4/94

IMF official calls for end to finrand

B/Day 25/4/94

WASHINGTON — SA should abolish its two-tier exchange rate system, though political uncertainties suggest government will have to preserve the finrand for the time being, an IMF official said at an IMF and World Bank meeting at the weekend.

"The sooner the finrand is eliminated, the better," said IMF African department assistant director Leslie J Lipschitz "But under the present circumstances, in which we see huge shifts in sentiment, there is no alternative to staying with the finrand," he added.

SA introduced the finrand in 1979, dropped it between 1983 and 1985, and then reintroduced it during PW Botha's administration

IMF research department deputy director Morris Goldstein told reporters at the meeting that gold was likely to have an increasingly limited role in official capital reserves, although it could still have some "anchor" capacity

Goldstein said various proposals circulating about reforms of the international monetary system signalled that gold's role would be limited but unlikely to be reduced.

Goldstein said he did not believe gold would have "a key role in any of the reform proposals" expected to be unveiled over the next few months in anticipation of more focused discussion at the IMF-World Bank annual meeting in September over possible international monetary reforms.

Governments, think-tanks and a host of organisations are drafting proposals on possible changes in how the world's monetary system is managed. The efforts are focused on the 50th anniversary of the so-called Bretton Woods institutions, which include the IMF, the World Bank and the International Trade Organisation (ITO).

The ITO was never fully ratified But the General Agreement on Tariffs and Trade (GATT) will be transformed next year into the World Trade Organisation.

156

For the IMF and World Bank, however, the issues are more complicated given the radical changes in the global monetary system since the institutions were created.

A key change has been the movement to market economies by many former centrally planned states. And in a number of developing countries demands for infrastructure support are shifting toward social needs

Goldstein did not offer any specific recommendations on international monetary reforms, other than to review an IMF proposal on an allocation of 36-billion special drawing rights (SDRs), or roughly $50bn

The IMF's last SDR allocation was in 1981. And IMF management is arguing that with 37 new member nations a fresh outlay is necessary

Goldstein also played down suggestions that international reserves could be quickly boosted by a simple revaluation of official gold reserves. Official reserves are currently carried on the books of some central banks at well below current market rates. — AP-DJ.

● See Page 9

New roles foreseen for World Bank and IMF

BIDay 26/4/94

THE IMF and World Bank have every reason to celebrate their 50th anniversary this July Although they have made some bad loans and shown insensitivity on issues such as poverty and the environment, critics should remember that, on the whole, they championed the right causes.

They advocated free markets and conservative macroeconomics when such policies were reviled by the world's intelligentsia

Yet at this moment of triumph, the future of the Bretton Woods twins is murky Over the next 50 years the power and prestige of these agencies and many like them are likely to decline, reflecting profound changes in the economic landscape

The fund and bank, admittedly, have adapted skilfully to changing circumstances Today, both institutions are engaged in policy-based lending, both are trying to promote structural reforms, both are concerned with long-term development This suggests a clearer division of labour and some rationalisation of functions is possible, as the independent Bretton Woods Commission is likely to recommend later this year

But a 50th anniversary year review of their operations ought to dig deeper The fund and bank are engaged in three distinct activities the provision of economic advice; the supply of development capital, and the certification of policies All three activities are separable, and all three can be provided by the private sector

On advice, there is now broad agreement on the market-friendly policies likely to promote development And private consultants are perfectly capable of devising economic reform strategies. Meanwhile, the lifting of controls on capital flows and the growth of pension funds and other forms of institutional investment in rich countries have created a huge pool of mobile private capital

Foreign direct investment is now the largest single source of capital for developing countries, rather than official aid or loans

Despite this revolution, the fund and bank claim they are uniquely well placed to influence economic policies and thus promote development, because they can make loans conditional on policy changes (156)

There is something in this conditionality argument But as the fund's problems in Russia illustrate, the leverage of external agencies is limited in the absence of a domestic consensus for reform

The private sector alternative seems far cleaner If a country wants to implement market-oriented reforms, it can buy the necessary advice privately Once it has proved its good faith, investors will be clamouring at its doors And it is not true, as some sceptics argue, that private investors are willing to risk their shirts only in relatively prosperous countries already under the tutelage of the bank and fund The example of China, which attracted more than $20bn in private inflows last year, shows that countries with low per capita incomes can attract private capital without official approval

Yet the bank and fund are still needed Governments must still co-ordinate policies, so as to avoid destabilising shifts in fiscal, monetary and exchange rate policy And there will still be financial emergencies

What the fund and bank can no longer deny is that the growing competence of the private sector in all aspects of development finance logically requires a tighter definition of their role Public agencies exist to perform tasks that the private sector either cannot do at all, or cannot do well. — Financial Times.

IMF criticises SA customs system

BDay 26/4/94

GRETA STEYN

THE inability of SA's customs system to monitor and control trade flows had led to loss of revenue and inconsistency in trade policy application and had enabled capital flight, said an IMF interim report.

The IMF conducted an investigation into SA's system of monitoring trade this year after allegations of smuggling, undervaluation of imports and abuse of the general export incentive scheme (GEIS)

Customs and Excise commissioner Daan Colesky said yesterday the IMF had been approached to do the study because it was a neutral body with expert knowledge

The IMF laid the blame for the problems on SA's complex trade regime, which was difficult to administer, and the lack of resources available to customs As a result, the authorities had had to neglect control in favour of allowing smooth trade flows to take place

The report said "Misrepresentation of actual trade flows on the documentation submitted to customs has led to the loss of revenue and to a perception within the community that there is an unfair playing field among domestic producers and distributors"

It said there was a strong case to be made for customs to increase the resources devoted to export control, because of the potential for abuse of the duty rebate system, zero rating of exports for VAT, exchange controls and industry incentive schemes (156)

In the short term, new procedures should be established to ensure customs was able to verify the value and quantity of goods exported.

A programme of joint audits with Inland Revenue of the books and records of firms should be established, as well as a physical inspection programme based on the identification of high risk exports, and random checks.

In the longer term, export declaration should be computerised and a "new, simple and efficient" system drawn up for giving exporters rebates for duties on imports.

The IMF said. "Customs should be given more autonomy, in particular to recruit staff, change its organisational structure, and invest in computerisation."

Colesky said action was already being taken to tighten up procedures and the strategy would be completed once the IMF had drawn up its final report

He believed the main problem was a lack of resources, and noted SA needed an additional 21 customs checkpoints on its borders with Namibia, Botswana, Lesotho and Swaziland. In the short term, there were plans to set up seven new checkpoints.

● See Page 12

Key management rejig at the IMF

(156) CT 8/6/94

WASHINGTON. — The International Monetary Fund (IMF) announced yesterday its first management reorganisation in 45 years in a shuffle that will swell the top ranks and tap leading American economist Stanley Fischer

Since 1949, the IMF has been headed by a MD — Michel Camdessus of France has held the post since 1987 — and a deputy MD who is traditionally an American

But now three deputies will be supporting the chief.

Fischer will be one, replacing Richard Erb who announced in May that he would step down. The other two deputies will be Ivory Coast PM Alassane Ouattara and Prabhakar Narvekar of India

Ouattara and Narvekar will begin their duties on July 1, while Fischer, an economist at the Massachussets Institute of Technology who served as the World Bank's chief economist from 1988/90, starts in September

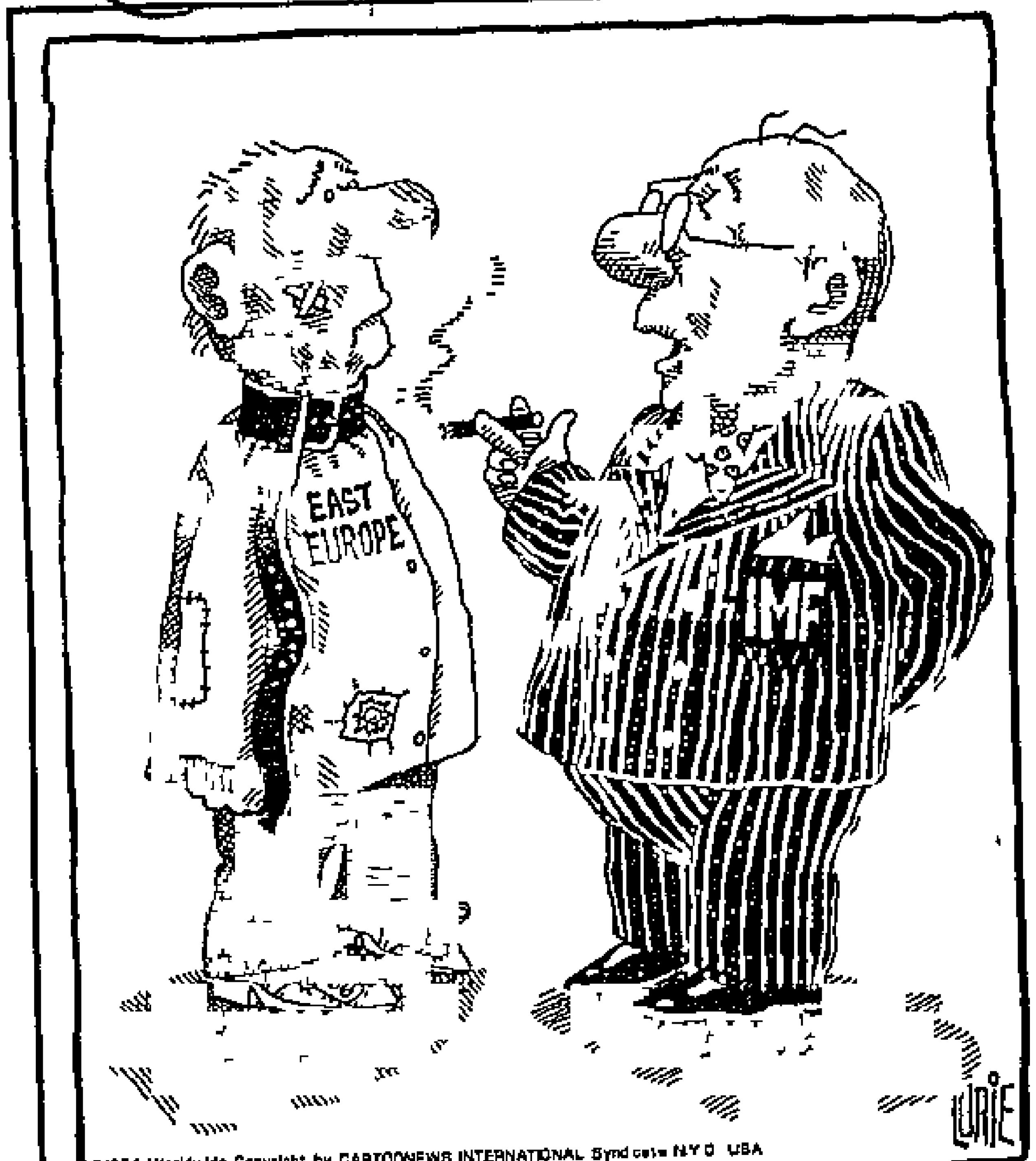
Fischer will be considered the top deputy and will have wide-ranging responsibilities in all areas of the financial institution, the IMF said in a statement

Fischer and Ouattara will be involved mostly in monetary policy while Narvakar, who has been at the IMF for 41 years, will be in charge of personnel

The reorganization is aimed at bolstering management at the IMF, which has seen its operations and membership grow considerably in recent years

The institution had 29 members when it was formed in 1945, with contributions totalling $8,8bn Today there are 178 IMF members — 32 of them joined in the past four years — and "quotas" totalling $200bn

The IMF and the World Bank were conceived in 1944 in Bretton Woods, New Hampshire.



'You'll just have to tighten your belt a bit more, Sir.'

Stinging attack on IMF loans

From JOHN CAVILL

LONDON — The number of Zimbabwean women dying in childbirth in Harare more than doubled in the two years after the country embarked on its structural adjustment programme imposed by the International Monetary Fund (BBZ) 156

In a stinging condemnation of the impact of IMF and World Bank policies on Third World economies, the World Wide Fund for Nature and Christian Aid said yesterday they were "hurting and not working"

The report said the IMF and World Bank should "drastically revise the terms under which they lend money to poor countries, greatly increase their accountability and adopt more democratic working methods"

It claimed conditions set by the two institutions to reduce poverty and promote sustainable development had failed

The report lists a string of examples of the damage done by similar programmes in Third World countries, saying growth had been in larger, richer countries with access to foreign investment and aid They had not helped the poorer countries

Citing Zimbabwe, the report said its programme had led to health spending falling by a third and a 14% drop in real per capita outlays on education

Star 29/6/94

Botswana lends money to IMF

Gaborone — Botswana will become the first Southern African country to lend money to the International Monetary Fund in a reversal of the trend prevailing in most of Africa.

The loan of 12,5 million pula (about $4,5 million) will be used to bolster the IMF's Structural Adjustment Fund, which is used temporarily to offset shortfalls in the balance of payments in countries where there is an IMF financial reconstruction programme.

(122) 156

Recipients of such assistance in Southern Africa are Zambia and Zimbabwe.

Diamond-rich Botswana, whose foreign reserves are running at about $4 billion, is only the fourth African country to lend money to the IMF.

Egypt has advanced $12 million, Morocco $8,6 million and Tunisia $2,3 million.

Professor Clark Leith, director of research at the Bank of Botswana, says the IMF has been having problems in raising enough cash.

"The IMF thinks that those countries that have benefited from such help in the past should now help others.

"The approach is that there should be more support for the Third World countries from their neighbours who can afford it," he says — Star Africa Service

UN study knocks World Bank, IMF

CT 15/7/94

156

UNITED NATIONS — A major new study of the United Nations says the World Bank and the International Monetary Fund (IMF) should attack the world's economic inequalities rather than overestimate their value to poor nations

"The World Bank, has, of course, done useful work but the realities do not really match the mystique," said the report, financed by the Ford Foundation

Entitled "Renewing the United Nations system," the study was written by Erskine Childers and Sir Brian Urquhart, former senior UN officials and authors of several authoritative books on the UN

Their book recommends radical reforms of other UN structures, including grouping all of its specialised agencies in one location instead of scattering them around the world

Among their recommendations are

● Secretary-general Boutros Boutros-Ghali should organise world experts to make proposals on the World Bank and IMF when heads of state gather for the UN 50th anniversary next year

● The UN should consider setting up its own non-commerical bank to complement the commercial lending to developing states by the World Bank.

● The General Agreement on Tariffs and Trade (GATT), which they say denies too many states a fair share of world trade, should be replaced by a genuine international trade organisation to include all countries

At minimum, the authors contend the IMF should live up to claims of devising macro-economic or big-picture strategies

"While the UN has been denied its role as a forum for agreeing equitable macro-economic strategies, such strategies have not been formulated at the IMF either," they say "For most developing countries the experience has been disastrous"

In 1990 there was a global surplus of $180bn while indebtedness from developing countries was eight times higher. But there was no real remedial effort by the IMF, they said

Most of the surplus went to private capital markets in rich countries while the World Bank was taking in $1,7bn in interest and principal payments from poor states

As for the IMF, its structural adjustment policies have actually "undone painstaking" work by the UN system in public health and education, the authors said

"In fact, all the original intentions of the IMF in assisting member UN countries have long disappeared" — Reuter

SA faces IMF loan, says Stals

S/Times (Buss)

21/8/94

By CIARAN RYAN

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

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

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

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

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

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

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

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

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

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

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

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

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

156

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

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

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

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

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

SA faces test with financial stability — IMF

BDay 29/9/94

(156)

GRETA STEYN

MADRID — Rapid growth in government spending could boost economic activity in SA this year, but posed a challenge to the maintenance of financial stability, the IMF said in its latest world economic outlook.

The IMF projected growth of more than 3% for the SA economy this year — more optimistic than the most recent forecasts by SA economists

The fund was bullish over SA's growth prospects because of buoyant exports and expanding domestic demand in an environment of increased stability and confidence.

It expected an improvement in Africa's fortunes after a decade in which the continent's growth averaged only 2%.

For the industrial world, it projected growth of 2,7% for this year — 0,4 percentage points higher than its May forecast

Growth in each one of the Group of Seven countries would be better than expected, except the US

Developing country growth is put at 5,6% this year — down from last year By contrast, industrial country growth has increased considerably from last year, leading to this year's annual meetings of the IMF and the World Bank being dubbed "the recovering meeting".

The fund warned that a few developing countries that had experiencd big capital inflows since 1989 faced the prospect of "sudden changes in market sentiment", which could have serious consequences An average of almost $94bn had flowed to developing countries during the 1990-1993 period. This compared with only $9bn during 1983-1989

Apart from a few exceptions, the fund expected the positive flows to emerging markets to continue The recent pattern of capital flows seemed to reflect a longer-term trend towards globalisation and international diversification of industrial country investments that appeared likely to continue, partly because of the rapid growth experienced by the developing countries

As the latter's share in world output grew, industrial investors would have incentives to invest

At present, most institutional investment portfolios appeared to be significantly underweighted in developing country investments relative to the size of the emerging markets

"These markets have not only offered attractive returns, but becuse of their low correlation with financial markets in industrial countries they also provide significant scope for portfolio diversification"

Recent calculations suggested that investors who had placed 20% of their portfolio in an emerging market index fund would have reduced portfolio risk by about 1,5%, while increasing returns by 2%

A second trend which had fuelled demand for emerging market investments was financial deregulation This had resulted in greater competition in financial markets and had increased international capital mobility, the fund said.

For some countries, like Argentina, Mexico, Thailand and Chile, substantial reductions in fiscal deficits had preceded the surge in capital inflows. But many countries that had not made much progress towards fiscal stability, such as Brazil, India and Turkey, had also attracted relatively large inflows The high interest rates associated with fiscal deficits had attracted short-term capital there.

IMF pledges new loan plan for SA

(156) CT 30/9/94

... as Stals hints on finrand

IN A DAY in which local currency markets were once again sputtering on rumour that Reserve Bank governor Chris Stals was preparing to do away with the financial rand, the International Monetary Fund announced it would make a new loan to SA should the government ask for it.

"We are ready, if so requested, to go ahead with a new programme," Michel Camdessus, the IMF's MD, told a news conference in Madrid last night.

The IMF made a $850m crisis package available to South Africa at the end of last year.

Calling South Africa's new government "the best news for the entire Southern Africa (region) in 50 years," Camdessus said there were already signs of a regional trading group based on that nation.

And Stals, addressing a London conference on the economy, trade and investment in SA said encouraging developments were taking place "which could create a situation wherein the remaining exchange controls on non-residents can be removed".

He said this could be done without causing any serious desruption to the existing financial situation.

He confirmed that SA was likely to launch a global Eurodollar issue before the end of the year.

Speaking further on prospects for the abolition of the finrand, Stals maintained: "In more favourable conditions it may be possible, for example to take the final plunge in this regard without any significant depreciation of the commercial rand.

"This will of course become possible once the two exchange rates have moved closer together and the present discount of about 30% has been substantially reduced."

Stals said that after the financial rand had been abolished and markets were convinced that financial stability — including a relatively stable unitary exchange rate for the rand — could be maintained, the exchange controls applicable to residents could be eased gradually.

Taking into account however, the low level of the foreign reserves, the Bank cannot but be extremely cautious in the advice it gives to the government with regard to the exchange control policy,"

"We will be pleased if markets overtake us," Stals said.

The decision to abolish the financial rand could not be taken prematurely, because if it had to be reversed, it would destroy SA's credibility, he said. — Business Staff, Own Correspondent and Reuter

From LINDA ENSOR

LONDON — Cabinet en-

Erwin soothes

Ocfish ties

IMF urges wage restraint on SA

BIDay 3/10/94

SIMON BARBER

WASHINGTON — The IMF has stated publicly for the first time that it sees unchecked wage increases as the single greatest threat to SA's economic recovery and to its chances of competing internationally.

The wage message is delivered in the fund's just-released 1994 annual report, which contains a summary of its board's hitherto confidential assessment of the SA economy in the light of last December's Article IV consultations.

The IMF echoes the warning by a World Bank report in July — Reducing Poverty in SA — which said high wage demands had cost hundreds of thousands of jobs.

That report called for sweeping reforms in labour, capital and land use to promote employment.

Unless unions are willing to temper wage demands, says the IMF, the Reserve Bank will be hard put to reduce interest rates from levels that not only cripple growth but, by increasing the slice of the Budget devoted to paying interest on borrowings, further limit what the government can responsibly spend on education, housing and the like.

Wage restraint is also seen as key to raising rates of "productive investment", foreign and domestic, and to reducing formal unemployment.

Investors, says the fund, will stay away unless they are convinced SA's authorities are committed to financial stability — in other words to fighting inflation, a key component of which must be the reining in of wage demands.

The fund's directors — representatives of the world's finance ministries — recommend the negotiation of a "social contract", under which that segment of the SA workforce which currently has wage employment is asked to forego pay increases in return for increased expenditures on social upliftment.

The directors favour SA's shift to "a more liberal, outward-looking policy on trade", which includes the reduction of protective tariffs and the introduction of mechanisms that ensure exporters have access to inputs at world prices.

They would like to see "an effective antitrust policy" that would further unleash healthy market forces, but they are willing to wait for the scrapping of exchange controls and the two-tier rand until "circumstances permit". (156)

If asked to choose between the imperatives of removing the "racial discrepancies" in social spending that are apartheid's legacy and of fiscal responsibility, they would lean in the latter direction, the choice being between gratification delayed and no gratification at all.

IMF warning

CT 3/10/94 (156)

Higher wage demands threat to SA economy

From SIMON BARBER

WASHINGTON. — The International Monetary Fund (IMF) has stated publicly for the first time that its sees unchecked wage increases as the single greatest threat to South Africa's economic recovery and to its chances of competing internationally.

EMPLOYERS BUDGET FOR 10% SALARY INCREASES

See PAGE 10

The message is delivered in the IMF's just released 1994 annual report, which contains a summary of its board's hitherto confidential assessment of the South African economy in light of last December's Article IV consultations.

The phrase "wage restraint" is repeated like a drumbeat throughout the annual report.

The summary suggests that unless unions are willing to temper wage demands, the Reserve Bank will be hard-put to reduce interest rates from levels that not only cripple growth, but also by increasing the slice of the budget devoted to paying interest on borrowings, further limit what the government can responsibly spend on education housing and the like.

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The directors are well informed on Trade and Industry Minister Mr Trevor Manuel's policies.

They favour the shift to "a more liberal, outward-looking policy on trade", which includes the reduction of protective tariffs and the introduction of mechanisms that ensure that exporters have access to inputs at world prices.

They would like to see "an effective anti-trust policy" that would further unleash healthy market forces, but they are willing to wait for the scrapping of exchange controls and the two-tier rand until "circumstances permit".

If asked to chose between the imperatives of removing the "racial discrepancies" in social spending that are apartheid's legacy and of fiscal responsibility, they would lean in the latter direction, the choice being between gratification delayed and no gratification at all.

ANTI-CRIME CRUSADE — Police vehicles, carrying scores of Nyanga and Crossroads children, yesterday indicated the improved relations with the community ● Report Page 5. Picture CLIVE SMITH

Unions' challenge to govt

CT 3/10/94

Own Correspondent

DURBAN — Deputy President F W de Klerk warned at the weekend that while the government was faring well it faced challenges from the union movement which had not realised its responsibilities to the nation.

While he said the National Party recognised the right to strike, the wave of demands for salaries beyond inflation — particularly in the motor manufacturing industry — threatened investor confidence.

There was a need for a negotiated economic accord — similar to the constitutional accord reached at Kempton Park — between business, labour and government to undercut labour instability and make South Africa investor-friendly.

"The unions need to become part of the economic solution."

Addressing the kwaZulu/Natal NP congress at the weekend he said the ANC owed it to the nation to impress among unions the need for responsibility to promote economic growth and increase productivity.

He said it was the ANC's duty, rather than that of the other two parties in the coalition to do this because the unions were members of the ANC's alliance partner the Congress of SA Trade Unions (Cosatu).

Mr De Klerk said, during recent business trips abroad, it had been impressed on him by businessmen that the NP's continued presence in the government — in which it kept its eye on South Africa's fiscal and monetary policies — was crucial to investor confidence.

He also said the truth and reconciliation commission should not be allowed to become the instrument of any one party. He pointed out there had been no agreement on the issue at cabinet level.

It was important that the disclosure of facts should be managed confidentially so that retribution was prevented, he added.

IMF AND WORLD BANK

Fin 7/10/94

Resilience through integrity

Success of conditionality depends on staying politically neutral

One of the great strengths of the International Monetary Fund (IMF) over the 50 years of its existence is that, by remaining aloof from politics, it has been able to bring economic order and thus prosperity to many countries after the chaos fostered by politicians, some of whom were well-meaning but mistaken and others who were simply self-serving

Because the IMF, and to a lesser degree its larger sister the World Bank, refused to be drawn into politics, its credibility has been high and the conditions it imposed for the use of its resources were accepted as having economic utility even if they were politically inconvenient.

The country in trouble could always point to the political impartiality of the fund to justify compliance

This year, as the IMF and the bank celebrate their 50th anniversary and contemplate adjustments in their role in a world much changed, and indeed improved, since their inception at Bretton Woods, there are increasing attempts by the Left, those who support intervention and those who dislike the disciplines imposed by markets, to politicise them as instruments of developmental advancement (356)(156)

The popular arguments are that both institutions have failed to eradicate poverty and have worsened the lot of the poor They are held out as clandestine devices of Western, particularly American, economic imperialism Much of this is based on fallacy, inadequate statistics and the special interests of the critics themselves

It is true that while the MD of the IMF has traditionally been French, the US — which is the dominant shareholder — has tended to appoint a politician or benefactor of the ruling US party to the chair of the much larger World Bank. Nevertheless, the track records of both institutions testify substantially to disinterest in politics and a professional application of market-orientated economics

This year, however, at the annual meetings of the institutions, IMF MD Michel Camdessus is at the centre of a major split between members over the use of the fund's resources to boost members' reserves The split suggests he is harbouring substantial political motivation

Simply put, Camdessus' plan involves injecting US$50bn into the world economy through a pro rata allocation of special drawing rights (SDRs), which are the fund's reserve asset, at the same time increasing members' automatic drawing rights from 68% of their contributions to 90%

The impact of a distribution of that nature would be substantially inflationary and flies directly in the face of the IMF's urging members in its World Economic Report, released only days before, to reduce their deficits to avoid the latest inflationary potential of rising expenditures It is suspected that behind this contradiction is Camdessus' desire to see an enhanced role for the IMF in the international system, with the SDR emerging as a reserve currency that will rival the dollar and other major currencies Previous attempts to give it that status have failed.

Fin 7/10/94

Camdessus *centre of a split between members*

Only a few years ago he was canvassing for increased member contributions to the IMF and he has opposed a UK plan that the fund sell some of its gold and distribute income from the invested proceeds to some of the indigent countries of Africa who have no chance of ever emerging from a debt trap These countries have neither the assets to sell the skills to extricate themselves nor the will to run their economies on any sound economic principles The fact that these countries would most probably waste the proceeds and land back swiftly in the mire is besides the point. Like Camdessus' plan to distribute SDRs, these gold sales would reduce the resources of the fund but without bringing any enhanced role for it in the international financial system.

Bundesbank president Hans Tietmeyer has rejected the Camdessus plan out of hand. Tietmeyer called on the IMF to concentrate on promoting monetary stability and cautioned against it seeking to overplay its role in global financing He is, however prepared to compromise and support an Anglo-American proposal for a once-off distribution of SDRs amounting to $24bn specifically to Russia and 37 other countries that have joined the fund since the last SDR issue in 1981

The French and Scandinavians have a rival plan to redistribute about $28bn, but this week controversy in the fund's powerful interim committee centred on the inflationary implications of the Camdessus plan — which naturally has the support of developing countries anxious for yet another handout — and the more targeted Anglo-American proposal

The fact, however is that the Anglo-American plan, while less potentially inflationary, is also politically inspired. It is intended to buy support for the return to market economies in the transitional countries of the post-communist world, where lack of commitment and piecemeal reform has led to a contraction of these economies and social distress as a result.

Commitment needed

There is no fundamental economic argument that can be applied to this type of IMF support for the transitional process Official support or aid in any form will never be enough to bring about a smooth transition in these economies It requires a commitment from the governments of the countries concerned, and through that commitment substantial sums of private-sector fixed capital investment, which has not been unduly withheld

Unfortunately, the row in the interim committee has a clear political dimension that will not be lost on the critics of the IMF and the bank.

These critics believe that conditionality is not bereft of political purpose and, far from enhancing prosperity in Africa and Latin America, has entrenched poverty and redistributed income from the poor to the better off

The British aid organisation Oxfam and other social pressure groups such as Greenpeace, Christian Aid and (believe it or not) the Slovak Forest Protection Group are seeking to have conditionality softened and to have it made economically less potent through the introduction of income redistribution, land reform and minimum wage policies (156)(358)

The arguments against making conditionality more convenient for delinquent governments are telling But they hinge on the maintenance of economic integrity and the absence of political motive — which is belied by the split in the interim committee over SDR distribution. Politics should have no part in the functioning of either the IMF or the bank.

Both the fund and the bank believe that the best way to help the poor is through growth based on macroeconomic stability, free trade and minimal government intervention However, in regions where reliable statistics are difficult to find, there is evidence that the incomes of the poor have declined. But there are also indications that the very poor may indeed be better off now where these policies have been properly applied, than they were when left to the devices of their own governments

For instance, *The Economist* points out this week that in both Latin America and Africa infant mortality decreased, life expectancy increased and illiteracy rates fell or did not get worse

The fact is that there is not sufficient evidence from these particular countries to make a compelling case either way

But the fund itself has found that where countries are being restructured under its guidance, and where conditionality has been embraced by the governments concerned with enthusiasm, significant and salutary progress has been made to a general upliftment. Redistribution, if it is desirable, can be undertaken without destroying economic potency

Unfortunately, in Africa, where many countries are politically unstable and the ruling elites see conditionality as a threat to power exercised through preferment the fund's restructuring has had less success The damage done by collectivist misadventure is also so deep-seated that it could take generations to remove

It is not difficult to understand why Camdessus has adopted a political posture. Both the IMF and the bank came into existence at a time when international capital flows were minimal and not expected to increase, most governments and institutions believed they had a role to play in asset allocation and market discipline

Greater emphasis was placed then on trade liberalisation and many governments felt that, either individually or collectively, they could maintain orderly and stable markets Since then there has been a massive surge in international capital flows, fostered by deregulation and technological advances, and consequently markets, rather than international financial institutions, have become a major source of discipline on domestic policies The greater independence of central banks, which is part of this process, has also detracted from the influence of these institutions

Prudent economic policies

Order and stability in international markets now are more dependent on the willingness of the large industrial countries to adopted prudent and orthodox domestic economic policies than on successful management by the fund or any other international agency

And likewise, the prosperity of developing countries is much more dependent on private-sector investments that carry the disciplines of adequate returns than on what have increasingly by comparison become minuscule foreign aid flows — which are inevitably wasted and often put to dubious purpose

Tietmeyer

Of course, it is entirely appropriate that the fund and bank reassess their roles in a changed world.

And they have the leisure to do so now well ahead of the next crisis, which may well arise out of the massive and uncertain capital flows to the emerging markets

But it should not be forgotten that in the various post-Bretton Woods crises they have shown remarkable resilience, disaster on more than one occasion has been avoided. This in turn suggests that they are probably much more mutable than they appear to be to those in Madrid, locked unfortunately in political disputation

Experience has shown that the economic integrity of the IMF and the bank is by far their most important asset. *Nigel Bruce in Madrid*

The global mint with a hole in it

(BM) WM 7-13/10/94 (156)

The IMF and World Bank are fighting for survival, write **Will Hutton** and **Alex Brummer**

Michel Camdessus Courageous stand at Madrid

IT may have been arcane, but it was a seminal moment none the less In failing to agree over how the former communist countries could take their fair share of the International Monetary Fund's resources at the Madrid meeting last weekend, the governing body of the world economy exposed the new hawkishness and power of the developing countries to defend their interests — and with it the deep fissures over principle that are a harbinger of an emerging dark age in international economic affairs

The developing countries, which have been supplicants at the table of the rich ever since the IMF and World Bank were founded at Bretton Woods 50 years ago, finally found the will and economic power to challenge the existing order They would not allow the big Western nations to put Western economic and political concerns over instability in the ex-communist world before their own interests

But equally, the leading industrialised countries themselves proved intransigent, unwilling to compromise further, either between themselves or with the wider world. They had done their deal in private conclave to supply a minimum of $23-billion to the new ex-communist members of the IMF and it was take it or leave it. But that is the point. The wider meeting left it. It was not going to be dictated to

But if agreement is impossible on this, what chance is there of wider agreement on reconstructing the IMF and World Bank? Is there any realistic possibility of reorganising the world financial system? More importantly, if this minimum of assistance cannot be agreed, is there any prospect of boosting the shrinking public sector transfers from the rich to the dispossessed — wherever they are? The world, by default, faces a future in which the private sector and markets rule

Yet only three months ago, at the Naples world economic summit, the Clinton administration persuaded its allies among the richest industrial nations that the time was right for a thorough investigation of the work of the IMF and World Bank There seemed a real chance of renewing their roles

It is not the Group of Seven countries who are any longer the big users/borrowers from the IMF and World Bank — the last first world client was the US itself during the dollar crisis of 1979 — but the biggest Asian countries, India and China Whatever thinking lay behind the review, they and other developing countries wanted to be involved, but if it was to undermine the IMF and World Bank in even their current approach to development they were doubly concerned To these economic behemoths of Asia, the IMF and World Bank are not bloated world bureaucracies, which need slimming down or abolishing, but reasonably benevolent institutions which have unlocked for them economic growth, potentially higher living standards and access to private sector capital

China and India launched intense diplomatic offensives, in Washington and London respectively (where they have clout because of the vast market they offer for manufactured exports) and made it clear they would oppose a radical overhaul

The confidence they showed reflects economic clout Using the IMF's new accounting methods the share of world output made up by the Asian countries in 1990 jumps from seven percent to 17 percent, throw in all of the developing world and it reaches 33 percent, add Eastern Europe and the former Soviet Union and the share is 44 percent The Group of Seven are fighting a losing battle to preserve their position at the top of the economic pyramid

But this deadlock resulted not only from the new distribution of power, but from an alarming lack of intellectual consensus about how the world should attempt to order its relationships — as marked within the industrialised countries as between them and the developing world On the one hand there is the pitiless view that every nation — from struggling ex-communist republics like Azerbaijan to advanced industrialised countries like Spain — should surrender to the invisible hand of the market. And on the other there remains the view, held by the managing director of the IMF, developing countries like India, and by France and Japan, that the world requires some order in which to organise its trade and financial flows

It was this clash of principle that made agreement on Sunday impossible Michel Camdessus, the courteous French banker in charge of the IMF, was insistent that the fund must hold on to its mission as upholder of the world's public good This obligation was in its founding articles, and while in the 1980s it had become the sometimes thoughtless vehicle for public austerity and free markets as its sole policy advice, this was only because it felt such policies served the world interest Now the world interest required the IMF to distribute its currency — the Special Drawing Right — more generously both to old members and those that have joined since the collapse of the cold war

Special Drawing Rights may be obscure, but if developing countries can swap their own reserves of paper currency which nobody wants for the IMF's currency, then suddenly they have buying power in world markets In effect it is a surrogate Marshall Plan, which is why the British and Americans were anxious to limit Camdessus' ambitions For inflation-haunted Germans the worry was that any increase in world spending power might be inflationary and their opposition was the most implacable of all

If agreement cannot be reached on this, the chances of finding an intellectual consensus over the need for a new exchange rate regime, or capital movement controls, are non-existent.

There may be growing alarm about the power of foreign exchange traders to set the value of currencies, interest rates and the fate of governments' economic policies as they swing vast sums of money from centre to centre — but the signal from Madrid is that there will be no co-ordinated effort to establish any other system The order is the non-order that exists at the moment, so that countries and parties as disparate as South Africa's ANC and Italy's Forza Italia are obliged to pursue broadly similar economic policies

Yet there are growing signs of unease The IMF and World Bank were themselves children of the Keynesian revolution of the 1930s, and the flame still flickers in both organisations The IMF has become concerned about the massive instability engendered by the deregulation of global finance, and the evidence that floating exchange rates are, if anything, more destabilising to national economic policies than the old system of fixed exchange rates Its attempt to enlarge the role of the SDR in Madrid was its first tentative effort at hitting back — and the initiative's collapse in ignominy is a dramatic setback.

Here the South may well have undermined its own economic goals By checkmating the development of the IMF they undermine its first at-tempt to organise a new international order, and so hasten the descent of the world into the grip of rule-less finance — where only the strong get stonger and the weak weaker The IMF and World Bank are not blameless institutions, but they are fighting for their lives

I. M. F.

1995

BUSINESS

IMF needs more power and money — Camdessus

BD 6/2/95 (156)

WASHINGTON — Calling Mexico's financial problems "the first crisis of the 21st century", IMF MD Michel Camdessus said in Friday's Wall Street Journal his agency needed more power and money to deal with future panics.

The IMF chief did not spell out what new authority the IMF needed. But he said because sudden capital flows in the global financial system could destabilise entire economies, "we have to be ready to step in as convincingly as with Mexico", which is receiving $17,8bn of emergency credits from the IMF

At the Halifax summit in midyear, the Group of Seven (G-7) industrial powers will consider ways to update the 50-year-old IMF and its sister institution, the World Bank

Camdessus said he would offer specific suggestions before that meeting The IMF provided more details about its share of the financial rescue for Mexico The fund would make $7,8bn available to Mexico today under a normal standby credit arrangement Additional funds — which could total $10bn — would become available on April 1 and July 1, if the IMF decided Mexico had met various criteria designed to ensure it continued economic reform

Meanwhile, the IMF spelled out its conditions for the credits, which matched provisions of the economic programme Mexico previously announced in an effort to quell the financial crisis.

Under the plan, Mexico had to chop its current-account deficit from 8% to 4% of GDP this year, and to 3,5% in 1996

Mexico's inflation, expected to surge to an annual rate of about 30% in the first quarter this year, would have to drop to 9% in the fourth quarter, a goal that would require tight wage discipline

To control credit growth, the IMF called for monetary growth of $10bn this year, down from growth of $60bn last year Domestic development banks, which expanded credit considerably last year, would have to cut their rate of credit expansion by half this year

On the positive side, the IMF predicted Mexico's merchandise exports would grow 25% this year because of the peso's devaluation. Moreover, it projected that Mexico's economic growth would resume in the second half of this year, bringing growth for the full year to 1,5%. Growth in 1996 should be 4%, the IMF said

A critical question in Mexico is how much austerity the public will tolerate

Although the IMF predicted growth would return, Michael Atkin, Latin America economist at the Institute for International Finance which represents private financial institutions involved in emerging markets, said he thought the Mexican economy probably would contract this year

To soften the impact of the IMF programme on Mexico's poorest citizens, Camdessus said Mexico's development banks, while scaling back lending overall, would extend new credits to small farmers. In addition, employers would be allowed to supplement wages for their lowest-paid workers and to earn tax credits equal to the amount of the supplements

A senior US treasury department official said economic conditions on US loans to Mexico would match those of the IMF US Treasury Secretary Robert Rubin, who met Mexican Finance Minister Guillermo Ortiz in Washington last week, said the US would insist on "timely transparency, that is, more and better information about Mexico's economic and financial condition". — AP-DJ

'IMF should borrow funds to combat crises'

(151)

ARGT 10/2/95

PARIS — The IMF should be allowed to raise emergency funds on international capital markets to enable it to tackle the kind of financial crisis which hit Mexico recently, Italian Prime Minister Lamberto Dini said

In an interview pubished in the International Herald Tribune yesterday, Mr Dini said he would try to convince the world's rich nations to approve a change in the International Monetary Fund's status to allow it to raise emergency funds.

The Mexican crisis, during which billions of dollars in investments were pulled out of the country after the devaluation of the peso led to a collapse in confidence pointed to a need to find new ways of dealing with such situations

"We cannot let these young guys who move portfolios in investment banks to move developing countries off course," Mr Dini, in his first interview since taking office, said

"The size of capital that can move across frontiers in a short time is so large that no one can resist that tide. The IMF resources are not suited to dealing with the threat of destabilising capital flows of a short-term nature," Mr Dini said

The IMF, which is funded by its government shareholders, is not allowed to borrow private sector funds.

The fund last week agreed a $17,8 billion loan for Mexico to help the country weather its severe cash crisis and bolster the world financial system

The standby loan was one of the cornerstones of nearly $50 billion in assistance for Mexico unveiled by President Bill Clinton.

Mr Dini, who worked at the IMF from 1963 to 1979, said he had discussed his proposal with Mr Clinton in Washington last week "I think the president feels these ideas deserve serious consideration," he said

He had also discussed it with Canadian Prime Minister Jean Chretien, who will host this summer's summit of the Group of Seven rich industrialised nations, expected to discuss reforming the IMF.

Mr Dini said that at the time of last week's rescue, Mexico was "very close to default, absolutely"

He criticised the IMF, saying that "with all its missions, it did not discover or anticipate anything in Mexico and Mexico is right next door"

He proposed that the IMF should be allowed to borrow short-term funds in capital markets to counter the effects of destabilising investment flows

If the IMF improved its ability to monitor potential problems, it could raise funds even before these became public

"Suppose that tomorrow you had another crisis and you needed antoher $40 billion or $50 billion quickly? Where would we get that?

"If the IMF could borrow $50 billion in the market, these kind of resources would stem the crisis," he added — Reuter

IMF rides a Mexican wave as world seeks currency stability

(156) CT (BR) 2/5/95

By Janet Bush

The Times

London — Apocalyptic visions of economic collapse and global contagion have stalked the G7 and IMF meetings Michel Camdessus, International Monetary Fund director, characterised the Mexican debacle as exhibiting the "crises of the 21st century"

How to avoid another Mexico and how the world's financial infrastructure can most effectively fire-fight in a world of fast-moving, free and huge capital flows dominated discussions, pushing recent turbulence in the currency markets into the background

It was natural that Camdessus should paint ghastly visions of an unstable future as part of his pitch for more resources to be invested in the fund, a campaign that has been going increasingly badly Last autumn in Madrid, his proposal for a new allocation of 36 billion Special Drawing Rights became a showdown between the G7, which did not want to pay up, and the developing world, which was fed up with not being consulted

Then, just months after the G7 decided to review the performance, aids and relevance of the IMF and the World Bank on the 50th anniversary of their foundation, Mexico delivered a bolt from the blue by devaluing the peso and triggering a chronic loss of confidence in markets worldwide.

Far from persuading the rich countries which bankroll the IMF that they should provide even more money, the experience of Mexico has redoubled their scepticism. None of Camdessus's list of demands for more funds made headway last week and the communique issued after the interim committee meeting was rife with the convoluted language that signals disagreement.

There was some support from the United States and Japan for a special money facility that could be swiftly made available to countries, like Mexico, whose collapse threatened widened systemic disorder

But the idea of a fire-fighting fund was opposed by most G7 members They doubt that such a fund would do any good, are unwilling to back a scheme that would swallow up a lot more of their money and want to be sure on what basis such money would be dispensed and to whom One of the main worries is that an emergency fund would encourage irresponsible or incompetent governments to work on the basis that, if they pursue the wrong policies and get into hot water, the fund and the world's rich countries will bail them out

The reluctance to come up with pat, expensive, answers to the ramifications of Mexico's crisis has been compounded by a suspicion that the IMF did not do its job very well

Britain asked for a new evaluation unit to be set up to monitor standards of performance within the fund, reporting to the board and not to Camdessus. The managing director did not take kindly to such a notion

With recent history in mind, the fund is going to have to demonstrate its competence in those areas that can obviously be improved

Last week, the interim committee agreed that surveillance has to be better, that countries must be forced to provide better statistical information, and that the fund must have a closer, more continuous policy dialogue with member countries.

Even IMF concedes it is time to improve

(156)

BD 2/5/95

LONDON — Thanks to the Mexican devaluation crisis, fundamental reform of the IMF is all but inescapable The debacle showed that the brave new global economy might continue to need an IMF to guard against such mishaps and possibly manage them effectively when they occur. But it demonstrated just as clearly that the IMF is in no position to fill that niche

Laudably, the IMF's 24-member interim committee took some steps last week to improve the organisation's surveillance capacities More sweeping reforms will be the subject of the June summit in Halifax of the leaders of the Group of Seven (G-7) industrial countries

The organisation has sought to exercise its influence in three distinct areas First, and easiest to dismiss, are its attempts to take the lead in fostering a co-ordinated response to exchange rate fluctuations. But even if the IMF were a suitable manager, it would require collective political will that is now patently lacking

The second, more pressing, concern, is the IMF's role in fostering market-led development in the very poorest nations Its short-term structural adjustment programmes have had only some successes Western donors need to think hard about the best way they can help such countries.

Writing down, or further improving the terms of these loans was, rightly, high on the agenda in Washington last week.

The World Bank's inherently longer-term approach to development makes it a better co-ordinator of the process than the IMF.

The latter has a more promising future in its third role, managing short-term balance of payments crises

One critical issue is whether to continue with an ad hoc approach or set up a more formal apparatus overseen by the IMF. The informal approach is undesirable, not least because it means only a select group of strategically important nations receive adequate attention. Yet a formal system has a greater potential risk of moral hazard — countries behave more irresponsibly with a visible safety net

Harvard University professor Jeffrey Sachs has proposed remodelling the IMF to act as a kind of international bankruptcy court for financially strapped countries and governments The notion that sovereign and corporate debt workouts might proceed in a similar fashion has a certain appeal

But governments are not companies, and none of the proposal's supporters has explained how the new system would overcome the differences between the two

Ideally, the IMF's interventions in such situations should aim at helping to manage the conflicting claims of creditors and debtors, not finding ways to replace private debts with emergency public ones. The global economy could well benefit from a supranational watchdog, able to perform such a role. It is largely up to the G-7 to decide whether it will get one. — Financial Times

IMF bolsters needy lands proactively

■ BY CHARLOTTE MATHEWS

156

International Monetary Fund-supported programmes provided the assurance that if a programme of change did not work, the rest of the world would stand behind that country, IMF senior information advisor Ahmed Abushadi said at a the start of two-day IMF seminar in Windhoek yesterday

Abushadi, in responding to criticism from the media, stressed that if member countries of the IMF agree to abide by its code of conduct and respect the interests of other countries, they receive the assurance of assistance when their economics run into difficulties

Star 11/5/95

The IMF shores up countries only until the balance was restored — assistance was intended to be temporary. It was ideally precautionary financing, intervening before a crisis materialises

The IMF has recognised that in some countries the need for assistance has become more than temporary

Asked to what extent IMF programmes had actually succeeded in sub-Saharan Africa, IMF Chief, South African Division 1, Jurgen Reltmaier said it was difficult to generalise

Abushadi cited Tanzania, Uganda and Ghana among sub-Saharan countries that had turned around.

The IMF at present has about $45-billion in outstanding loans from member countries Annual loans average R7-billion but in 1994 is expected to be "spectacularly higher

IMF defends austerity programmes in Africa

(156) CT (BR) 11/5/95

By Charlotte Mathews
[illegible]MENT EDITOR

Windhoek — A senior official of the International Monetary Fund (IMF) yesterday defended the IMF's record in assisting African countries to turn around their economies.

The IMF's senior information adviser, Ahmed Abushadi, was responding to criticism by some African journalists of the hardships sometimes caused by IMF-supported austerity programmes

Abushadi cited Tanzania, Uganda and Ghana among sub-Saharan countries that had turned their economies around, but added that it would be immodest to attribute these successes to the IMF

Speaking at a two-day IMF seminar, Abushadi said that when countries adopted and stuck to structural adjustment programmes in line with IMF guidelines, the IMF committed itself to standing behind those countries with additional assistance during the course of the policy adjustments This was especially useful, he said, where natural disasters occurred that were beyond a country's control

The IMF assistance was intended to be temporary, Abushadi said. It was ideally precautionary financing, before a crisis materialised

The IMF had recognised that in some countries the need for assistance had become more than temporary Corrective measures could take place over three years, repayment was over a longer term, and the interest rate was subsidised

Asked to what extent IMF programmes had actually succeeded in sub-Saharan Africa, the IMF's South African division 1 head, Jurgen Reitmaier, said "We have evidence that the application of such economic policies has the desired results, but these policies are not always associated with the IMF programmes"

Reitmaier acknowledged that some economic policies had been imposed on developing countries by industrialised nations without regard to the need for social adjustment

He agreed that the burden of adjustment usually fell on the poorer parts of society. The IMF therefore attached great importance to health and education spending

Abushadi said economic stability was vital for growth. "We are trying to create the best possible conditions for job creation and permanently addressing poverty, rather than hand-outs and food subsidies"

The IMF has about $45 billion in outstanding loans from member countries

Annual loans averaged R7 billion but 1994 was expected to be "spectacularly higher", Abushadi said, because of demands made by Mexico and Russia.

The IMF's liquidity was comfortable but was expected to come under pressure by the end of 1997

IMF policies in Africa attract angry criticism

Investment Editor **CHARLOTTE MATHEWS** reports from Windhoek on the resentment the African media feel against Structural Adjustment Programmes

The South African media expressed surprise last week at the hearty criticism levelled at the International Monetary Fund's Structural Adjustment Programmes (SAPs) by press delegates from sub-Saharan African countries attending the IMF/World Bank group seminar in Windhoek

South Africa is free from the structural adjustment programmes being implemented in several other sub-Saharan African countries, which are a condition of IMF loans

However, if it had not been shunned for its apartheid policies in the 1980s it might also have succumbed to the temptation to borrow on IMF terms

In any case, as one IMF representative said, South Africa is now in the process of implementing its own process of adjustment, which involves encouraging more foreign investment and becoming more trade-oriented

IMF denies formula

The IMF/World Bank representatives, although they denied having a formula, repeatedly put forward the need for changes in the policies of many African governments to make economies more private sector and trade-orientated

The fundamental problem the African media has with the IMF appears to be the imposition of a policy framework from outside, particularly from the industrialised countries of the West About a quarter of the IMF's funding comes from the United States because the quota system for annual membership is based on the size of the economies of its members

Representatives from the southern African press criticised the level of communication from the IMF which appeared to give the impression that IMF policies were being forced on local populations without consultation

They felt that the IMF was siding with the governments against the people and that IMF support was propping up regimes that would otherwise have collapsed through their own inefficiency

It was also suggested that a sweeping IMF policy framework was not appropriate for Africa, which has its own distinct problems

As one Zambian representative explained, "SAP" in his country stands for "Satan is here"

In response, representatives emphasised that membership of the fund was voluntary and that the IMF belonged to its members If it were not performing satisfactorily, it would be disbanded, they said They said policies were agreed on with the governments of countries that approached it for assistance, and those governments were responsible for familiarising the population with the policies

Sub-Saharan GDP

They stressed that the IMF does not apply a single formula to all countries Considerable research is being undertaken into the reasons why the Asian economies have been more successful than the African ones, even in basic areas such as agriculture

In sub-Saharan Africa, real per capita GDP dropped by 0,7 percent between 1974 and 1993 and by 2,3 percent between 1991 and 1993 In 1994 it fell by 0,7 percent

These figures for sub-Saharan Africa contrast with real per capita GDP growth in all of Asia of 4,3 percent between 1974 and 1993, 5,2 percent in 1991-93 and 5,5 percent in 1994

According to an article from the IMF's World Economic Outlook, growth in many sub-Saharan countries has been held back by the lack of a stable environment to make economic decisions, high inflation, high fiscal deficits and poor governance and social and political instability

In an IMF occasional paper, Sub-Saharan Africa Growth, Savings and Investment 1986-92, published in January this year, the writers said empirical studies showed that inappropriate macroeconomic policies were the second-largest contributing factor to the poor growth performance of sub-Saharan African countries between 1986 and 1992, after population growth rates and unfavourable weather.

To accelerate their growth rates and achieve external viability, sub-Saharan countries in the 1990s need a growth-orientated adjustment strategy, encouraging private savings and investments more than in the past

The representative of the World Bank Resident Mission in Zimbabwe, David Cook, told last week's seminar the environment needed to stimulate local and international investment in the private sector included a consistent fiscal policy, low levels of government intervention in the form of tariffs, subsidies and state-run enterprises, and infrastructure such as telecommunications, electricity, transport and banking

"It should be recognised, however, that the adjustment process is likely to be a protracted one, given the existing imbalances and the deep-rooted developmental constraints that confront sub-Saharan African countries," the IMF said

Differences explained

The main achievement of last week's seminar for the African media was probably that it helped explain differences between the various functions of the IMF, the World Bank and the International Finance Corporation, but it was unlikely to have overcome the resentment expressed by the journalists on behalf of their readers and listeners

(156) CT (BR) 18/5/95

Blueprints for disaster

(156) WM 23-29/6/95

Justin Pearce

WORLD BANK and International Monetary Fund (IMF) development blueprints have been lambasted by a report released by the development agency Oxfam.

The report says the World Bank and IMF schemes, introduced in the early 1980s to promote economic recovery, deepen the cycle of poverty endured by the citizens of developing countries.

The Oxfam Poverty Report, which has been released to coincide with the 50th anniversary of the United Nations, also criticises the UN as being ineffective in its mission to eradicate the problems faced by the world at the end of World War II.

The report's harshest criticism is levelled at the Structural Adjustment Programmes which the World Bank, the IMF and many foreign donors impose on developing countries as a precondition for loans or donations.

The programmes involve reductions in government spending, with disastrous consequences for the quality of social services such as education and health services in the country affected

Zimbabwe, for example, suffered a one-third reduction in per capita spending on primary health and basic education between 1990 and 1993 as a result of structural adjustment Zambia's education budget declined to its lowest-ever level in 1993 for the same reasons.

SA-EU talks

SOUTH Africa started trade talks with the European Union on Friday by asking for a 10-year period of grace to allow its industries to adapt to free trade gradually.

Trade Minister Trevor Manuel said South Africa needed the period to protect its industries while they become competitive on world markets

Mr Manuel met with EU African Affairs Commissioner Joao de Deus Pinheiro to start negotiations on a proposed twin-track trade approach.

ST(B) 2/7/95

Casino licence

GLOBAL Resorts, a Rand Merchant Bank subsidiary, has been granted a casino licence for its Grand Palm Hotel and Casino Resort in Gaborone. The casino complex is scheduled for opening at year-end.

Global Resorts MD Ernie Joubert says that "in view of the slow progress in reaching the license application stage in South Africa, we decided to bring our international expansion plans forward."

IMF delay

(156)

ST(BT) 2/7/95

THE International Monetary Fund, a major financier of Zimbabwe's economic reforms, has withheld some funding in a bid to force the government to show conviction in fiscal discipline as it has failed to curb its spending.

In an apparent move to get the government to honour repeated undertakings to curtail its expenditure under a five-year-old programme, the IMF delayed disbursing the next tranche of promised financial support amounting to Z$500-million.

Mining dispute

ST 2/7/95 (BT)

A DISPUTE between the National Union of Mineworkers and the Chamber of Mines is imminent following the deadlock reached this week between the union and De Beers over wages and working conditions.

"The chamber seems to think that Sunday working is the answer to the industry's problems," says NUM assistant general secretary Gwede Mantashe.

"We want to look at job grading systems, affirmative action, the hostel system, time off, contract labour, single panel supervision and training."

The negotiating team will report back to members and it is likely that a dispute will be declared this week.

Boland deal

BOLAND Bank and stockbrokers Senekal Mouton and Kitshoff have agreed in principle that Boland will buy 50% in SMK once legislation regulating the Johannesburg Stock Exchange permits.

Boland Bank said the deal would have no immediate effect on earnings or net asset value.

Reports by Business Times staff and Sapa-AP-Reuter

IMF solutions 'of little use'

ST (PT) 13/8/95 (156)

By KEVIN DAVIE

SOLUTIONS to South Africa's economic problems suggested by International Monetary Fund officials are "not particularly useful", says Deputy Finance Minister Alec Erwin

Mr Erwin says a recent IMF delegation, invited to South Africa by the government, was "pretty positive" but also noted the low growth rate, high unemployment and that the current account deficit was being supported by short-term capital inflows

Mr Erwin says there is no disagreement with the IMF on its analysis of the problems facing the economy

Discussions included the possibility of South Africa applying for a standby loan facility from the IMF

Claims that the IMF mission had "left South Africa in disgust" are denied by Mr Erwin, who says issues were debated, but that the IMF's suggested alternatives to present policy were not useful

"By every account our economic policies have been remarkably successful"

The government wants to increase long-term capital flows by promoting exports and small and medium enterprises, and by restructuring state assets

IMF pleased with SA's progress

BRUCE CAMERON (156)

POLITICAL EDITOR

CT(BR) 24/8/95

The International Monetary Fund (IMF) has concerns about the South African economy but is pleased with the general progress being made.

Chris Liebenberg, the minister of finance, has told parliament that contrary to reports that an IMF delegation had left South Africa in disgust, it had rather "indicated that they are satisfied and impressed with progress made over the past year"

The IMF was impressed with the government's economic management and the development of the relationship between business, labour and the government

Concerns

The IMF had some concerns, such as the deficit before spending being at 5,8 percent of the GDP

"They think it is too high" and it should come down sooner and quicker

The organisation was also concerned about the low level of savings and the lack of competitiveness in the economy.

The IMF was pleased with the management of the currency and particularly delighted by the fact that the Reserve Bank had withdrawn from the forward-cover market, said Liebenberg

He said the government had to continue to address the potential debt trap but the Budget had to be balanced in the sense that an environment had to be created to attract investors It also had to be balanced so as to address the vast inequalities in the country.

IMF looking at deposit insurance fund for SA

BD 5/9/95 (156)

Amanda Vermeulen

A DEPOSIT insurance fund could encourage competition in the banking industry, protect small depositors, minimise taxpayers' costs and help prevent contagious bank runs, according to Greta Mitchell of the IMF's banking supervision and regulation division.

The bank is looking at the possibility of introducing deposit insurance in SA.

At a conference on banking supervision yesterday, hosted by the Reserve Bank, Mitchell said deposit insurance defined and limited government support for depositors, reducing speculation about protection, and protected the payments system.

Such a fund also promoted public confidence in the safety, stability and soundness of the banking system.

While there were many benefits to insurance, there was also a need to be "well aware of the costs and other potential distortions before it is introduced".

More than 30 countries had some form of deposit insurance. When properly designed, it could define how depositors and creditors were treated when banks failed, Mitchell said.

A poorly designed guarantee with comprehensive coverage could make large depositors complacent and reduce constraints on excessive risk-taking by insured institutions.

"A well-designed deposit insurance fund can stabilise a banking system but an ill-constructed fund can weaken it. The fund must provide assurance to small depositors, for whom it is not cost effective to monitor the condition of their bank, while leaving a role for market discipline," Mitchell said.

Reducing SA labour costs should be top govt priority — IMF report

BD 21/9/95

(156)

Simon Barber

WASHINGTON — The high cost of labour remained a critical problem for the SA economy, reducing the country's international competitiveness and fuelling high unemployment, the IMF board of directors has told government.

This is in the IMF's newly released 1995 annual report, which contains a summary of the board's latest Article IV consultations with SA, completed last January

Bringing down labour costs should be the authorities' "highest priority", the board said It recommended a mix of "real wage containment", worker training to boost productivity and steps to "break the inflation inertia in nominal wage settlements"

Growth was projected to be too slow over the medium term to arrest the "upward trend" in joblessness, which, in any event, appeared to be structural and more related to labour costs than any other factor

This was indicated by the fact that unemployment had continued to worsen amid rising inflation and the "disappearance of the current account surplus"

In other words, to the extent the vanishing current account surplus could be accounted for by businesses importing production capacity, the implied expansion was not translating into more jobs because labour was pricing itself out of the market

SA badly needed improved flows of foreign direct investment, the board thought, but getting them would be "contingent on an improvement of SA competitiveness", which would in turn depend, at least partly, on controlling labour costs

"Many" directors — there was not unanimity on this point — felt the competitiveness issue could be addressed by depreciating the rand "at the right time".

"They stressed, however, that any depreciation must be considered in the context of real wages corrections and labour market reform, and be supported by macroeconomic policies; otherwise it might spark a wage price spiral "

The board was impressed by government's "broad advocacy of free trade", which it viewed as "the most telling signal of the new government's economic ideology"

The board wondered whether the Reserve Bank was keeping a tight enough rein on money. Although circumstances in 1994 had been unusually difficult, "the upturn in inflation and the sharp deterioration of the external current account suggested that the monetary stance had been insufficiently restrictive"

Directors hoped "that policy changes and the continued vigilance of the Reserve Bank would correct the problem in 1995".

IMF warns against swift lifting of exchange controls

BD 22/9/95 (156)

Greta Steyn

THE International Monetary Fund had warned SA to go slow on relaxing exchange controls, Reserve Bank governor Chris Stals said yesterday.

Speaking before key policymakers leave for an overseas trip which will include the IMF/World Bank annual general meetings next month, Stals said people had found it hard to believe the IMF had advised SA against swiftly lifting remaining exchange controls.

The IMF, whose economic medicine normally means freeing markets, has changed its tack on exchange controls after the Mexican financial crisis earlier this year.

Stals and Finance Minister Chris Liebenberg expected to discuss the IMF's "likes and dislikes" on SA when they met IMF MD Michel Camdessus and other officials next month. But balance of payments assistance would not be on the agenda, Liebenberg said, as SA's foreign exchange reserves had held up well despite a surge in imports.

Government and the IMF had been in complete agreement on SA's economic problems when a delegation visited recently. The main problems were the short-term nature of SA's foreign capital inflows and lack of fixed investment by foreigners, the snail's pace at which government's deficit was being reduced, and the Bank's slow withdrawal from the market for forward cover in foreign exchange.

Finance deputy director-general Maria Ramos said World Bank involvement with SA's infrastructure investment plan would be discussed. Liebenberg said it had already been raised with Bank officials. "We discussed our philosophy and approach to financing of infrastructure with them and it really turned them on."

SA would begin serious negotiations this year on which constituency (bloc of countries) to join in time for the next

Continued on Page 2

IMF

(156) BD 22/9/95

Continued from Page 1

election of IMF executive directors next year. Liebenberg indicated SA would join other African countries.

Before the IMF meetings, Liebenberg will attend the meeting of Commonwealth finance ministers in Jamaica. Two themes will be combating money laundering and lessons from growth strategies in East Asia.

On SA's overall economic situation, Liebenberg believed policymakers could now place more emphasis on economic growth in their pronouncements than had hitherto been the case. The change in emphasis was focused on style — policies would not change, but it was no longer vital to use every opportunity to emphasise cutting spending and reducing the deficit. "We had to spread the gospel and change government's philosophical approach. Now that that is done, we can start talking more about other things," he said.

Finance director-general Estian Calitz said that a matter of great urgency was restructuring government departments to improve tax collection.

Union critical of IMF presence in SA

(156) (182) (193) BD 28/9/95

Renee Grawitzky

CAPE TOWN — The SA Clothing and Textile Workers' Union (Sactwu) strongly criticised the involvement of the International Monetary Fund (IMF) in Africa and the SA government's failure to consult the union properly over the Zimbabwe Preferential Trade Agreement in respect of clothing and textiles which comes into effect next month

Delegates at the union's congress held in Cape Town at the weekend resolved to reject the IMF's involvement in SA and criticised the advice being given to the SA government by the IMF Delegates also resolved to arrange a meeting with government to discuss the Zimbabwe agreement.

Sactwu general secretary Jabu Ngcobo said delegates had decided that bilateral trade agreements including the Zimbabwe agreement should include a social clause which provided for the protection of worker rights

Ngcobo expressed his concern about complaints raised by parliamentarians who felt they were merely rubber stamping agreements reached within Nedlac — which could ultimately reduce Nedlac's power. Nedlac, he said, was the only structure which could bring about peace in the economy

Addressing the congress, Labour Minister Tito Mboweni said the ministry would focus on the restructuring of the labour department, the formulation of a white paper on an SA Labour Market Policy, the promulgation of legislation dealing with employment equity in the workplace and revision of the Basic Conditions of Employment Act, during 1996.

Mboweni said he would have to ensure that the revised Basic Conditions of Employment Act included provisions that he promised delegates at Cosatu's congress last year, including a 40-hour week. He said business has warned him that negotiations on this issue would be very tough

Delegates at the congress adopted resolutions on a wide range of other issues including the training of officials to gain an understanding of the LRA, centralised bargaining, the restructuring of the clothing and textile industries, training and job grading as well as the appointment of a national organising secretary to co-ordinate specific campaigns.

FORUM

IMF voices doubts over the World Bank relief plan

(151) CT (BR) 29/9/95

BY RICH MILLER

REUTER

Washington — A senior International Monetary Fund (IMF) official voiced caution on Wednesday about a new proposal to allow the world's poorest nations to write off some of their $200 billion in foreign debt

Jack Boorman, the director of the Policy Development and Review Department, said the global lending agency had some questions about the plan and that further work was needed to determine its feasibility

The proposal, which has been put forward by the World Bank staff, calls for the creation of $11 billion international trust fund to allow poor countries to write off some of their debt to multilateral agencies such as the IMF and the World Bank

Boorman acknowledged that at least four countries — Guinea-Bissau, Mozambique, Nicaragua and Zambia — have little chance of meeting their foreign debt commitments Cameroon, Madagascar, Sierra Leone and Zaire definitely faced a tough time, he said

But Boorman questioned whether industrial countries would be willing to put up money for a debt-write-off fund when they were already cutting back on aid to the developed world

Economic policy-makers from industrial and developing countries are expected to discuss the proposal during the semi-annual meeting of the IMF and World Bank next month

IMF warns SA to watch its 'mix of policies'

ARG 5/10/95

□ *Uncertainty 'caused outflow'*

(156)

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON — The International Monetary Fund has cautioned South Africa to reappraise its economic policies to correct a predicted deterioration in its balance-of-payments position.

The IMF's biannual World Economic Outlook report released yesterday blamed excess demand pressures, fuelled by cyclical capital inflows for this problem in SA and other emerging market countries such as Brazil and Indonesia.

These countries "need to reappraise the overall stance and mix of policies to address the underlying causes" of the problem, the report said

Asked to elaborate at a Press conference here yesterday, Michael Mussa, IMF economic counsellor and director of research, said that uncertainty about SA had caused "some degree of capital outflow"

SA had a "significant but not huge" current account imbalance The domestic economy was growing but not as much as the IMF had hoped for, given SA's potential and high unemployment.

But a plus for SA was that it enjoyed strong political consensus on how to move forward

Asked what SA should do about its remaining exchange controls, Mr Mussa said that in general the IMF strongly recommended liberalisation of international capital markets

But it was also important to proceed prudently and cautiously and that applied especially to SA.

SA should move forward but only after making adequate preparations and ensuring the macro-economic situation was stable.

The report stressed in general that there was no need to reconsider liberalising financial markets because of the potential for market turmoil.

"Admittedly, markets occasionally are mistaken and often appear to react too slowly to emerging imbalances

"But shifts in market sentiment are usually justified even though the resulting movements in asset prices can appear excessive.

"Closing the capital account of the balance of payments is neither feasible nor desirable.

"The issue facing policymakers is rather the need to address the policy problems and weak fundamentals that are often at the root of market turmoil."

Overall the world economy had proven quite resilient to the recent financial turmoil and the IMF forecast growth of four percent in 1995 and 1996.

(156)

New IMF plan for debt crisis

CT(BR) 6/10/95

By Bruce Cameron

Washington — The International Monetary Fund and the World Bank expect to have a programme in place by April next year to resolve the debt crisis of the world's 41 most heavily indebted countries.

Michel Camdessus, the managing director of the IMF, said he was concerned about the major falloff in contributions by industrialised countries to the International Development Association, the arm of the World Bank which assists the poorest countries.

Contributions had fallen to 1973 levels and if the association was not topped up soon, to at least the levels of previous years, "all our recent efforts will be meaningless".

Speaking at a media conference in Washington, Camdessus criticised the American Congress for holding up contributions to the association. He did not reply when asked whether the IMF was considering selling gold to spring the poorest countries — a number of them African — from the debt trap.

He said the target was to have all indebted countries in a position where they would be able to service their own debt but stressed they had to maintain fiscal and monetary polices credible to market forces.

The IMF did not want to foist programmes on countries, he said, and preferred that they develop their own restructuring programmes to cross the threshold of credibility, both with their own people and with the markets.

SA to play African role at IMF, Bank

(156)

Greta Steyn

BD 11/10/95

WASHINGTON — Finance Minister Chris Liebenberg is expected to announce today that SA will appoint two permanent advisers — one at the IMF and one at the World Bank — to represent all English-speaking African countries.

The appointments will follow SA's decision to join the constituency of 19 English-speaking African countries in the IMF. The African group has not been permanently represented at the two institutions before, and the move will enable SA to play a key role in African affairs. It signals SA's commitment to Africa, especially to the southern region.

The IMF constituencies elect executive directors on a rotation basis and they represent members' interests. SA will become a formal member of the African constituency only when the next executive directors are elected at next year's bank-IMF AGM.

SA will almost definitely not have

Continued on Page 2

SA role

(156)

Continued from Page 1

BD 11/10/95

an IMF executive director as it is another country's turn next year. However, SA will make its influence felt through the special advisers.

The fact that SA was not part of a constituency meant that it had a permanent representative in Washington for years. That office, manned by Hugo Dutoit, will now be closed. The special advisers will be employed by the bank and the IMF but will be chosen by the SA government

While most SA officials argued that SA's natural home was with Africa, some were pushing for a different approach. Teaming up with Switzerland or India were options mooted by officials fearing SA's power would be diluted if it joined forces with African countries. However, Liebenberg is expected to make it clear in his speech at the AGM today that SA is deeply committed to Africa.

The daily Emerging Markets newspaper reported that regional integration in Africa was firmly on the World Bank agenda It quoted bank vice-president for Africa Kim Jaycox as saying "There is a big lag between perceived risk and actual risk in southern Africa"

Trading and investing in the region had become easier, Jaycox said.

Move to fund debt relief

IMF likely to sell slice of its gold reserves

BD 11/10/95 (156)

Greta Steyn

WASHINGTON — SA expected the IMF to find creative ways to use its gold reserves to finance debt relief for poor countries, finance deputy director-general Maria Ramos said in an interview yesterday

SA was concerned about plans to use the fund's gold, but could live with the decision as the fund would not dump bullion on the market The fund has about $3bn in gold in its reserves

The likelihood that the fund's gold reserves would form one element of a comprehensive debt relief plan has intensified, with IMF deputy MD Stanley Fischer saying this week the fund hoped to extend financial relief to poor nations by using some of its gold resources This follows the IMF's rejection of the idea when first mooted last year by British Chancellor of the Exchequer Kenneth Clarke

The World Bank has indicated it will use some of its profit to deliver on its pledge of debt relief.

But Ramos said SA expected the fund to ensure that its reserves were not impaired through gold sales.

"It is more likely that the fund will exchange some gold for income-earning assets, and we understand it is a small percentage," she said

It was not in the fund's interests to put a damper on the gold price as it was a major bullion holder and unlikely to jeopardise the value of its reserves

She said the gold issue was one of several concerns SA held over debt relief proposals, but in general it supported the principle that the debt stranglehold on a small number of poor countries should be loosened.

Final proposals for debt relief are still some months off, and it is not clear how widespread the action will be.

The bank and fund have denied that there are major differences between them on the issue, but Fischer was unable to explain at a news conference why the bank had identified about 25 countries as needing relief from multilateral debt, while the fund had picked only four.

Observers believe the bank has broken with the traditional view that poor countries should live with their debt to the bank and fund, especially after a bank working paper proposing an $11bn plan was leaked to the media.

Ramos welcomed the new spirit at the bank, but said care had to be taken not to create a "moral hazard" problem on debt. "Why should one country receive debt relief and another not? If bad policies are to blame for the debt problem, should they be rewarded with a rescue package?"

She expected that instead of debt

Continued on Page 2

Gold reserves

Continued from Page 1

forgiveness, interest-bearing debt could be converted into non-interest bearing debt. The plan had to ensure savings from a reduced foreign interest bill would be spent prudently.

SA would give the bank its full support in its efforts to replenish resources for its soft loan arm for the poorest countries, the International Development Association.

The US has delayed paying the tranche of the 10th replenishment of the association and is not likely to pay the full amount pledged US Senate and House of Representatives members will meet tomorrow to hammer out a compromise on how much money to grant for the delayed tranche.

The house Bill offers $575m and the Senate $775m — substantially less than the $1,6bn the US had pledged.

Ramos said it was a shame the US was withdrawing finance just as many of the poorest countries were implementing tough economic reforms.

AVERTING CRISES

IMF ANNUAL CONFERENCE

Order out of surveillance

Lifting the veil on accountability

FM 13/10/95 (156)

The anxiety over its changing — and diminishing — role in world economic affairs that hung ominously over the International Monetary Fund's 50th anniversary meeting in Madrid last year — and caused so much controversy — had all but evaporated at its annual meeting this week at its Washington headquarters. The Mexicans were responsible for that.

Mexico's debt crisis, which erupted only months after the Madrid meeting, so focused the attention of the IMF and made such demands on its resources that fund MD Michel Camdessus found that his prestige was assured and influence enhanced, despite the rejection of his plan last year to use the fund's resources to boost members' reserves.

The Mexican debt crisis was nevertheless a salutary experience for the Fund. For at its October meeting last year the eloquence of the Mexican Finance Minister persuaded most of those present that his country's market orientated reforms were a model of textbook perfection. What he neglected to take into account — as so many finance ministers tend to do — was the reaction of international investors to the depredations of his fellow politicians.

Within a matter of months, the degree of integration of capital markets had so sensitised investors that they withdrew *en masse*. This required a swift and massive response from the Fund to ensure the maintenance of international financial stability — and it was not found wanting. It provided ultimately US$18 billion of financial support, more than it has ever extended to any other member country.

At the same time the crisis intensified the review of the Fund's functions that begun rather fancifully at the Madrid meeting. Much of the earlier function of the Fund had been usurped by market disciplines implicit in the floating of major exchange rates over the past 20 years. The financing of balance of payments deficits, and the economic policy adjustments necessary to correct those deficits and bring fixed exchange rates back into international equilibrium, were no longer necessary.

Moreover, when currency support operations were deemed to be necessary, the larger members no longer appealed to the

IMF ANNUAL CONFERENCE

Interim Committee of the Fund They simply agreed among themselves what to do at the meetings of the G7 finance ministers, which today eclipse those of the Interim Committee

So last year in Madrid Camdessus' plan to inject $50bn into the world economy through a pro rata allocation of special drawing rights and a simultaneous increase in members' automatic drawing rights from 68% of their contributions to 90%, was interpreted as an intention to give expression to the Fund's desire to recapture its past glory and influence

Deutchebundesbank's president Hans Tietmeyer, currently the world's most influential central banker, would have none of it He cautioned the Fund against its seeking to overplay its role in international finance and told it to concentrate on promoting monetary stability

And he was right — as the Mexican crisis demonstrated shortly afterwards This year the Camdessus plan gets no more than a passing reference in the Fund's annual report saying it is being kept under review

What was embarrassing too about the unforeseen Mexican crisis was that it came so soon after the adoption of the "Madrid Declaration" by the Interim Committee which celebrated the success of those developing countries, of which Mexico was the shining example, that had steadfastly implemented strong programmes of macro-economic adjustment and structural reform

After the Mexican crisis, the Fund has decided that this was not enough Its own surveillance of exchange rate policies — which it now acknowledges is at the heart of its responsibilities — was inadequate And it accepts some culpability, along with Mexico, for the crisis

And its plans to tighten these surveillance procedures are likely to thrust it back into a more central position in international finance, if not into the influential position it held in the early years of the Bretton Woods fixed exchange rate regime

The Mexican crisis, the Fund says, demonstrated the swiftness and intensity with which international capital markets could react to adverse developments in a country It believes that once identified, crises can be prevented

The surveillance guidelines it has published suggest that not only will it take a tougher and more searching line with its members, but that it may indulge in public remonstration with those that err Its annual report says the Fund's board addressed the issue of openness, particularly the need to strike an appropriate balance between the confidential relationship that the Fund has with its members and the desirability of encouraging greater public transparency of Fund policies and operations

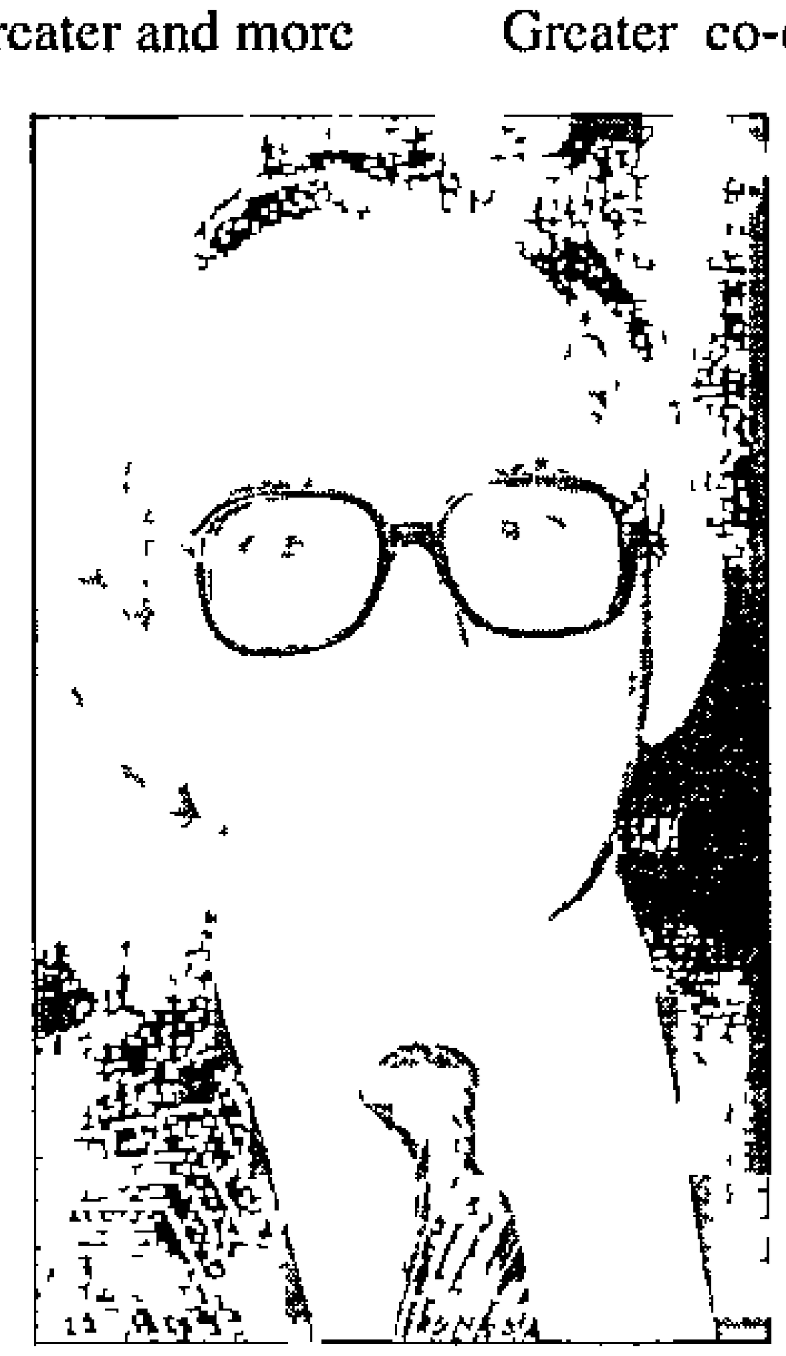
However, the annual report does point out that the Fund's staff should not be regarded as an adversary by a member under surveillance and that collaboration should extend beyond the completion of a support programme

An important task would be to improve the dialogue on policy between the Fund and it members and to be more candid The reliability of data would be probed to a greater extent and members would be expected to supply it with diminishing delays Where countries had difficulties generating data, the Fund would be prepared to provide technical help

One of the criticisms of the Fund's operations in Africa is that when recipients of one of its structural adjustments schemes have failed to meet the required conditions, it failed to admonish them in public The result has been that errant governments are too often able to dissemble in such a way that the Fund appears to be the cause of their own political and economic shortcomings This has reduced the efficacy of the Fund's efforts especially in Africa

There is little doubt that greater and more telling surveillance and publication of the outcome (even if this is done only by agreement with the member concerned) will thrust a greater political role on the Fund And that, while generally fund staffers are held in high esteem, some members are going to find a persistent team of IMF men in peripatetic mode both irksome and politically inconvenient

This new policy of transparency and public acknowledgment may however also have some shortcomings For the Fund's economic integrity, which is seldom questioned, has much to do with its refusal to be drawn into political disputation But as the Fund is always much more cautious in its approach to the implementation of new policy than it expects members to be with the application of the macro-economic and structural reforms that it recommends, whatever controversies might arise will at first be muted



Camdessus

Greater surveillance is unlikely to become controversial where the Fund is assisting countries in transition from command economies to market economies and where its conditions are generally welcomed as being both necessary and indicative of sound investment opportunities These activities remain an important function of the Fund and consume increasing amounts of its resources The financial requirements that the Mexican crisis indicated might on occasions be needed has brought forward again initiatives to increase the Fund's resources This time the Fund's initiative might find firmer ground among members But that is not certain For if the proposed surveillance system is more effective, the need for the resources required in the Mexico crisis could be less There are also some members in arrears

The question of the debt of the indigent Third-World countries, particularly in Africa, remains a vexing one The various imaginative and other plans put forward last year do not appear to have fructified and new ones are less pragmatic — or are proposed with diminishing enthusiasm Limited forgiveness and encouragement towards substantial economic reform is about the best that these countries can expect

The Fund expects continued buoyancy in the main industrial economies, although it is less sanguine about the maintenance of commodity prices Unemployment levels are expected to remain high relative to growth expectations especially in countries with advanced welfare systems

Greater co-operation between major industrial countries had led to improved macro-economic and structural policies, but had done little to contain short-term exchange rate volatility More fundamental realignment is going to be necessary before that is adequately addressed

There is no doubt that technological advances and the removal of national barriers is going to increase the fluidity of international capital and the risks involved, particularly of the recipients

A greater surveillance role for the Fund is probably inevitable and desirable To be effective it has increasingly to be transparent and with that will go the satisfaction of achievement publicly acknowledged, but also the mortification of failure Both are impostors with which the Fund is going to have to learn to live

The Fund is going to have to accept also a political dimension to its activities which, while this might enhance its role in world financial affairs, will also attract much more controversy and criticism, especially from those developing countries that use the Fund as a scapegoat for their own inadequacies

Nigel Bruce

Gold industry takes IMF's plans in its stride

(ISL) ST(BT) 15/10/95

PACIOLI

NEWS that the International Monetary Fund could sell off some of its gold reserves to help relieve the debt of the poorest countries may have caused concern in Washington this week But in Johannesburg gold price watchers seemed relatively unconcerned

"Of course any talk of a sell-off by the IMF or central banks has to be a negative," says Bruce Williamson, JD Anderson's gold analyst But analysts, including Mr Williamson, do not expect the IMF to act irresponsibly if it sells any of its reserves, said to be worth about $3-billion

The sentiment was echoed this week by Finance Minister Chris Liebenberg, who does not expect a wholesale sell-off of gold by the IMF and believes a combination of methods would be used in any debt-forgiveness programme

Frankel Pollak Vinderine's Trevor Pearton says any IMF sell-off will probably be at regular intervals over years Besides, he says, the possibility of a sell-off is hardly a surprise, having been mooted last year by Kenneth Clarke, the British Chancellor of the Exchequer

Experts say a complex set of factors has been keeping the gold price in a certain trading range and only an extraordinary event could thrust the market into the volatility seen in the 1980s

Indeed, recent events like currency upheavals, Japanese banking problems and a large sell-off by the Belgian Central Bank had no effect on the price The bottom line, it seems, is that negative factors are being countered by buoyant physical demand for gold, particularly from the Far East

Physical demand, especially for jewellery fabrication, has exceeded new mine supply for more than six years Last year demand for fabrication was 3 030 tons, of which demand for jewellery fabrication was 2 574 tons New mine supply was 2 294 tons

According to Roger Baxter, the Chamber of Mines' economist, two factors — "caps" and "collars" — are keeping gold in its price band

Between $375 and $380 an ounce, physical demand is strong and provides a good "collar" price for gold

However, as speculators climb into the market and push the price up to $395 or more, physical demand tends to diminish. The "cap" has been reached, speculators take profits and the price falls back into the $375-$385 range.

Analysts say the derivatives market and forward selling by gold producers tend to keep the price in the range.

In addition, Dr Pearton says advancements in computer software have gone a long way in reducing the market's volatility over the past five years in that they have allowed much larger volumes to be traded while margins have narrowed

Mr Baxter is fairly bullish about the gold price's near-term movements In the first six months of this year fabrication demand rose 21% while mine supply fell 1%

This could see gold trading in a band of $380 to $400 this year and the "collar" price rising to $390 next year, leading to a gold price of just more than $400, says Mr Baxter

While underlying fundamentals for gold may look good, South Africa's reserves, export earnings and struggling gold mining industry can ill afford a dip in the price from an IMF sell-off.

Zilla Efrat

WORLD

CONTROLLER: Michel Camdessus, the IMF's managing director Picture: AP

South Africa moves closer, but still an arm's length away from the IMF

(156) ST (BT) 15/10/95

Finance Minister Chris Liebenberg was in no rush this week to agree to IMF and World Bank terms for lending to South Africa, writes **SIMON BARBER** from Washington.

SOUTH Africa's relationship with the World Bank and the International Monetary Fund deepened at this week's 50th annual meetings in Washington, but there were obvious signs that neither side was entirely at ease with the other

Chris Liebenberg, the Minister of Finance, said last Wednesday the World Bank was "a little impatient that we have not got a project yet we can put on the table so they can lend us money"

Bank officials did not deny this, but said they were worried that their impatience was being seen as arrogance

The bank has spent a large amount on helping South Africa analyse its economic options and design programmes to implement the RDP. But bank officials have not specified the amount for fear of offending other members

And some staff are eager to see their work bear fruit They are used to faster decisions by the World Bank.

Then there is the question of how the bank operates

"Advice is as important as money," its new president, James Wolfensohn, said in his inaugural address on Tuesday

Though officials are cagey about discussing details, there is a limit to the technical assistance a customer can obtain without paying for it.

In at least one area where the bank has been providing South Africa with advice — small enterprise development — the advisers are having to seek a special exception to continue working with their SA counterparts on a "non-loan" basis

When and how South Africa will begin to access bank loans remains up in the air, although Mr Liebenberg said there had been specific discussions this week on borrowing for infrastructure projects.

But he also made clear the government was still shopping around for the best deals "We look at the bank as just another lender, nothing more"

The World Bank's sister organisation, the IMF, also looks like it will play a controversial role in South Africa's economic policy as it recasts itself as traffic cop for international capital flows

The turning point was the collapse of the Mexican peso last December — "the first crisis of the 21st century" as Michel Camdessus, the IMF's managing director, called it

Since then, the organisation has made it "an absolute priority", in Mr Camdessus's words, to step up its surveillance of members' economies "to help prevent crises by pinpointing policy weaknesses and emerging tensions at an early stage" Moreover, the fund intends to be more outspoken about its findings "so that markets are kept better informed"

For the first time in its history, this year's IMF annual report contained summaries of the board's views on the economic policies of 34 countries — developed, intermediate and developing.

South Africa's report card could best be described as a yellow light to foreign investors proceed with caution, the report warns The authorities are doing many things right, especially in terms of fiscal restraint, but the country has a serious problem with competition, largely due to high labour costs

In his annual address, Mr Camdessus said the organisation needed "to help the countries likely to need our financial support while dismantling their remaining exchange controls"

But Mr Liebenberg denied that one of the countries was South Africa "We are not having any discussions with the IMF to liberalise exchange controls or to get any assistance"

That said, Mr Liebenberg saw "a major role for the IMF — in helping us formulate policies And who knows, next year we may want to borrow money from them for one or another reason"

IMF considers gold sell-off to finance enhanced aid fund

(151) CT(BR) 16/10/95

Washington — The International Monetary Fund (IMF) might auction up to 10 million ounces of gold from its official reserve stock over a two-year period from 1998 or 1999.

To put that figure in perspective, it is approximately equivalent to the total amount of gold produced by South Africa in seven months.

David Williams, the IMF treasurer, said the aim would be to raise capital to help finance the IMF's enhanced structural aid fund (Esaf).

This fund — an extension of the long-running structural adjustment facility — is intended to advance loans at minimal interest rates (0,5 percent) to assist the socio-economic development of many heavily indebted countries which include most of the world's poorest nations.

In particular, Esaf is concerned with alleviating their existing foreign debt burdens.

If the gold auction did take place it would probably follow a similar pattern to the much larger IMF sell-off that took place from 1976 through to 1980. In that programme the IMF auctioned 25 million ounces of gold in equal tranches of 780 000 ounces every six weeks.

A further 25 million ounces was returned to IMF member-nations over those years in proportion to their quota contributions to the IMF.

Should the IMF go back into the gold sales business before the end of the 1990s, however, there would be no additional rundown of its gold stock (now about 103 million ounces) to member-countries, Williams said. It could be, too, that sales of only 5 to 6 million ounces would be required rather than 10 million.

South Africa would not qualify for any Esaf assistance. Its foreign-debt position is way short of anything resembling crisis-level by world standards.

SPOTLIGHT

BY HOWARD PREECE

SA's foreign debt is not high enough to qualify for new, low-interest loans

Indeed, it is ranked among middle-income nations by the IMF as "less indebted", which puts it into the category of countries not presenting any problems in the foreseeable future. South Africa's rating compares with middle-income countries which are severely indebted, such as Brazil, Uruguay and Syria, and moderately indebted countries such as Mexico, Turkey and Indonesia.

Whether the IMF finally does go the gold sales route, however, would not be known before at least the middle of next year. It could even be that no ultimate decision is taken before 1997.

The reason is that the United States still holds effective veto powers over any IMF operation. The IMF requires an 85 percent majority vote for virtually any type of action — and the United States holds more than 15 percent of the total IMF vote.

In terms of American legislation, congressional approval for gold sales has to be given, it is not a matter that falls within the authority of the president. Given the byzantine nature of the American legislative process, there is no way of knowing how long it might take to get congressional approval. For this reason, the executive board of the IMF — the effective controlling body — was asked to make recommendations on Esaf funding from 1998 to 2004 by April next year. There are various options, but if gold sales are proposed, the operation would have to be set in motion next year because of the congressional factor.

There are some powerful influences in favour of gold sales.

Chief among these is Michel Camdessus, the managing director of the IMF. He offered his support for such sales — a view he repeated at the closing media conference of this year's annual IMF meeting in Washington over the weekend.

But gold buffs can also take considerable comfort from his wider approach. He backed gold sales on condition that they be moderate and not disruptive of markets. Camdessus said sales should only take place on a basis whereby each dollar raised would be matched by a dollar contributed to the Esaf by the various donor nations.

On the political side, the main running so far has been taken by the British Chancellor of the Exchequer, Kenneth Clarke. During the past week's IMF meetings Clarke said: "A continuation of the Fund's Esaf instruments will certainly be important. Recognising the constraints on donor budgets, I have urged that the IMF should make modest sales and reinvestment of its gold to this end."

But Clarke's view suits the British agenda since the main contributors to Esaf have been Japan and France, and Britain would prefer gold sales rather than have to increase its financing role.

Germany also put gold on the table — but in a different form. Their draft suggestion was that Esaf should be financed out of donor contributions, but that gold should be put as last-resort collateral for any lenders who might suffer default. The other alternatives were to rely on financing that excluded the IMF gold reserve.

It is impossible to know, however, just how much financing — gold-backed or otherwise — would be needed. This is because Esaf needs a kind of bridging finance for the period from 1998 to 2004 before repayments of previous loans would be sufficient to fund new loans.

Williams said the IMF's gold stock was valued at the official price of 35 special drawing rights (SDR) an ounce, or about $52 an ounce.

The IMF would transfer a value of SDR35 an ounce from all sales so that its assets would not decline.

The surplus would be used to see Esaf through the 1998 to 2004 period. The stronger the gold price, the less gold would have to be sold and vice versa. That, too, would be a key reason for the IMF not to sell gold in any form that would have a significant and sustained downward effect on the price.

All that said, however, it should be recalled that IMF gold sales caused inevitable panic in some gold quarters in 1976 and 1977. On several occasions the price fell towards $100 after having almost touched $200 at the end of 1974.

Bearing this in mind, the IMF has yet to make a decision, and even if sales were approved, subject to the United States, Camdessus would have plenty of central bankers with consequential gold stocks in their foreign reserves as well as finance ministers of gold producing nations all determined to see that the gold market would not be subject to any lasting downward effect.

Besides, it would hardly make sense to sell gold to the point where it would be that much harder to raise the funds required for Esaf.

IMF considers gold sell-off to finance enhanced aid fund

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David Williams, the IMF treasurer, said the aim would be to raise capital to help finance the IMF's enhanced structural aid fund (Esaf)

This fund — an extension of the long-running structural adjustment facility — is intended to advance loans at minimal interest rates (0,5 percent) to assist the socio-economic development of many heavily indebted countries which include most of the world's poorest nations

In particular, Esaf is concerned with alleviating their existing foreign debt burdens

If the gold auction did take place it would probably follow a similar pattern to the much larger IMF sell-off that took place from 1976 through to 1980 In that programme the IMF auctioned 25 million ounces of gold in equal tranches of 780 000 ounces every six weeks

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Should the IMF go back into the gold sales business before the end of the 1990s, however, there would be no additional rundown of its gold stock (now about 103 million ounces) to member-countries, Williams said It could be, too, that sales of only 5 to 6 million ounces would be required rather than 10 million

South Africa would not qualify for any Esaf assistance Its foreign-debt position is way short of anything resembling crisis-level by world standards

Indeed, it is ranked among middle-income nations by the IMF as "less indebted", which puts it into the category of countries not presenting any problems in the foreseeable future South Africa's rating compares with middle-income countries which are severely indebted, such as Brazil, Uruguay and Syria, and moderately indebted countries such as Mexico, Turkey and Indonesia

Spotlight

By Howard Preece

SA's foreign debt is not high enough to qualify for new, low-interest loans

Whether the IMF finally does go the gold sales route, however, would not be known before at least the middle of next year It could even be that no ultimate decision is taken before 1997

The reason is that the United States still holds effective veto powers over any IMF operation The IMF requires an 85 percent majority vote for virtually any type of action — and the United States holds more than 15 percent of the total IMF vote

In terms of American legislation, congressional approval for gold sales has to be given, it is not a matter that falls within the authority of the president Given the byzantine nature of the American legislative process, there is no way of knowing how long it might take to get congressional approval For this reason, the executive board of the IMF — the effective controlling body — was asked to make recommendations on Esaf funding from 1998 to 2004 by April next year There are various options, but if gold sales are proposed, the operation would have to be set in motion next year because of the congressional factor

There are some powerful influences in favour of gold sales

Chief among these is Michel Camdessus, the managing director of the IMF He offered his support for such sales — a view he repeated at the closing media conference of this year's annual IMF meeting in Washington over the weekend

But gold buffs can also take considerable comfort from his wider approach He backed gold sales on condition that they be moderate and not disruptive of markets Camdessus said sales should only take place on a basis whereby each dollar raised would be matched by a dollar contributed to the Esaf by the various donor nations

On the political side, the main running so far has been taken by the British Chancellor of the Exchequer, Kenneth Clarke During the past week's IMF meetings Clarke said "A continuation of the Fund's Esaf instruments will certainly be important Recognising the constraints on donor budgets, I have urged that the IMF should make modest sales and reinvestment of its gold to this end"

But Clarke's view suits the British agenda since the main contributors to Esaf have been Japan and France, and Britain would prefer gold sales rather than have to increase its financing role

Germany also put gold on the table — but in a different form Their draft suggestion was that Esaf should be financed out of donor contributions, but that gold should be put as last-resort collateral for any lenders who might suffer default The other alternatives were to rely on financing that excluded the IMF gold reserve

It is impossible to know, however, just how much financing — gold-backed or otherwise — would be needed This is because Esaf needs a kind of bridging finance for the period from 1998 to 2004 before repayments of previous loans would be sufficient to fund new loans

Williams said the IMF's gold stock was valued at the official price of 35 special drawing rights (SDR) an ounce, or about $52 an ounce

The IMF would transfer a value of SDR35 an ounce from all sales so that its assets would not decline

The surplus would be used to see Esaf through the 1998 to 2004 period The stronger the gold price, the less gold would have to be sold and vice versa That, too, would be a key reason for the IMF not to sell gold in any form that would have a significant and sustained downward effect on the price

All that said, however, it should be recalled that IMF gold sales caused inevitable panic in some gold quarters in 1976 and 1977 On several occasions the price fell towards $100 after having almost touched $200 at the end of 1974

Bearing this in mind, the IMF has yet to make a decision, and even if sales were approved, subject to the United States, Camdessus would have plenty of central bankers with consequential gold stocks in their foreign reserves as well as finance ministers of gold producing nations all determined to see that the gold market would not be subject to any lasting downward effect

Besides, it would hardly make sense to sell gold to the point where it would be that much harder to raise the funds required for Esaf

IMF has new ideas, but no cash

CT(BR) 13/11/95 (156)

By Rich Miller

Reuter

Washington — Economic policy makers from more than 175 countries wound up an intensive series of meetings yesterday with a rash of new proposals for dealing with the world's economic woes, but no money to carry them out

From new procedures at the IMF for tackling economic crises to World Bank proposals to write off poor nations' debts, the meetings touched many of the problems of an increasingly intertwined global economy

On the surface, the world economic outlook could not look much brighter After a pause earlier this year, economic growth in the industrial countries is heating up

New procedures have been adopted to prevent or contain future crises such as the one that drove Mexico to the brink of default on its foreign debts in January But the financial muscle to back up the bureaucratic guidelines is lacking

"We still need your active co-operation to strengthen the fund's resources," Michel Camdessus, the managing director of the IMF, told the meeting's closing session

During the meetings, rich industrial nations proposed a plan for a $50 billion war chest at the IMF to attack future financial emergencies

But faced with the need to cut bloated budgets, the IMF has been forced to look to smaller industrial nations and the emerging economic powerhouses of Asia for cash The response has been cautious.

The outlook, if anything, is even grimmer when it comes to finding money to help the world's poorest countries in Africa and south Asia.

Unlike Mexico, their plight does not present any threat, though officials, such as World Bank president James Wolfensohn, warned that a day of reckoning will come

Much of the immediate concern has focused on the future of the International Development Association (IDA), a World Bank affiliate that is a major source of aid to the world's poor

Tight-fisted Republican lawmakers are poised to slash the American contribution to IDA by half Other nations may follow suit

"If there is a seriously underfunded IDA, we will be faced with a world of increasingly unstable nations," Wolfensohn said