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ADDRESS BY MR. TA MANUEL, MINISTER OF FINANCE, AT A BUSINESS BREAKFAST HOSTED BY NBI, 21 FEBRUARY 1997

Good morning.

My arm was twisted into addressing you this morning, although my staff are telling me I should not be speaking in public so close to the budget. Of course, speaking to business people less than three weeks before the budget does limit the scope of what I am able to say, and the questions I am able to answer, but I have been assured that you are keen to hear about the progress we are making in implementing our Growth, Employment and Redistribution Strategy, and what government is doing to engender business confidence. Let me start by pointing out, from our perspective, some of the reasons why we feel business should be feeling confident about our economic prospects.

Certainly if we look back at what kind of an economy business has been faced with over the past twenty years, there are reasons to be positive. From the early 1980s through the first half of the nineties, the South African economy grew by little more than 1,0 percent per year, and national income per capita fell by about 18 percent. Over this period, consumption expenditure be general government increased from 15 percent to 21 percent of GDP and gross domestic fixed investment fell from 27 percent to 16 percent of the aggregate. Government debt increased from 30 percent to nearly 60 percent of GDP. These are trends which we have begun to reverse. The growth recovery, which has averaged 3 percent a year since 1994, has for the first time in many decades been led mainly by investment in the private sector and a strong expansion of non-gold exports.

The strong inflow of foreign capital into the JSE during the first six weeks of 1997 has contributed to bringing bond rates down below 15% for the first time since March last year. A lower public sector borrowing requirement in 1997/98 will reinforce this downward trend in interest rates. We also expect government debt to come down from 58% of GDP in the second half of 1995 to below 55% in 1997 - a fall in this ratio for the first time in 6 years. Figures released last week indicated that we on target for achieving our target of a 5,1% budget deficit for 1996/97, and we remain committed to achieving 4% in the forthcoming budget, with a reduction to 3% by the year 2000. What are the strategies that are affecting this turnaround? Certainly the strategies that form part of the GEAR document are playing a major role. GEAR commits the government to fiscal discipline.

Evidence of the implementation of this can be seen in the successful way in which the newly created debt management office is dealing with debt and cash management. Other evidence is found in reaching the deficit targets we have set, as I've just mentioned. A package of investment incentives and accelerated depreciation allowances has been introduced and will be maintained for a three-year period. Alongside the tax incentive, several supply-side measures have been introduced, including enhanced support for the small business sector.

A number of major co-ordinated infrastructural and industrial investment projects have been initiated. Our monetary and financial policies are aimed at containing the inflationary impact of the currency depreciation and protecting the integrity of our banking system and capital markets. Consistent with the opening up of the economy to international trade and capital flows, approximately fifty percent of exchange control measures have been abolished and the remaining exchange controls will in due course be phased out. Our complex tariff regime has been substantially rationalised, customs surcharges have been removed, a programme of tariff reductions is under way and trade negotiations are in progress both with the European Union and in our own regional context.

Following the sale of several radio stations last year, a partial privatisation of our telecommunications utility will be completed this year. Preparation is in progress for the sale or corporatisation of several other public entities. A new Labour Relations Act is in place, and 1997 should see the introduction of a new framework for financing industrial training in addition to completion of negotiations around the protection of basic conditions of employment. In some of these areas, policies are already in place and programmes are up and running. In others there is further work to do - in labour market policies, for example, time has to be allowed for the negotiations process within the Nedlac environment, and the trade reform programme requires extensive international consultation and sometimes tough bargaining. Growth in the manufacturing sector during 1996 has been disappointing and we have not made sufficient progress in meeting the employment challenge which confronts us.

But on other fronts, the record of the past year has been consistent with our growth strategy projections. Exports have continued to grow strongly, government has kept to its deficit target for this fiscal year, and industrial investment continues to take the lead in the expansion of domestic expenditure. Against the background of the long decline in average living standards up to 1993, real income per capita in South Africa has increased by between 4 and 5 percent over the past three years. A mild slowdown in the economy is now in progress, but we anticipate a growth recovery towards the end of 1997, sustained and strengthened during the remaining years of the decade.

The underlying growth potential of this economy has for many decades been suppressed by discriminatory human development policies, a plethora of ideologically motivated regulatory constraints, an absurd spatial development framework and a series of unproductive so-called strategic industrial investments. This is behind us. We will enter the twenty-first century a robust, revitalised, rapidly industrialising powerhouse of the Southern African region, capable of taking full advantage of the opportunities the global economy offers.