Description: SPEAKING NOTES FOR THE MERRIL LYNCH CONFERENCE
Speaker : MINISTER TREVOR MANUEL

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How do small open economies successfully access the global capital markets? How can economies such as ours withstand the storms and turbulence of the global markets? What builds the resilience required not only to withstand external shocks but to change adversity into opportunity and to take advantage of the opportunities created?

The answer to these and many other similar questions is what has become our mantra on economic policy – sound and sustainable macroeconomic policies and a robust institutional framework. In my comments today I will focus on these two themes and highlight the key initiatives that this government has taken in regard to both.

We recognised early in the life of this government that the transformation of our society and our economy required vision, bold leadership, commitment and above all courage. Our ultimate goal is an economy that is growing, creates jobs and is capable of delivering a better life for all of our people. The path we have chosen to achieve this is hard, but we remain convinced that there are no short cuts. In tough times, our resolve is often severely tested. We are often reminded that macroeconomic stability is only one side of the coin, a necessary but no sufficient condition for growth and job creation. We know and understand this only too well, but we also know that macroeconomic policies which are unsustainable in the medium term are costly and detrimental to long-term growth and development.

We have embarked on a programme of deep and irreversible transformation of our economy. This is embodied in the RDP and supported by the macroeconomic policies set out in GEAR.

- As government we have consistently indicated our commitment to reprioritising expenditure in favour of basic needs and the equitable delivery of social services. This is reflected in the fact that some 60 per cent of non-interest expenditure in the Budget is on social services – grants and developmental welfare services, health and education. Millions more people have access to education, social welfare benefits, primary health care, clean water and housing than ever before.
- Growth and job creation require investment. Investment in infrastructure builds economic capacity and enhances competitiveness, while contributing positively to improving the quality of life of the poor. Energy, transport, communications and social infrastructure bring significant benefits to poor communities and particularly to women and children. One of our objectives is to increase the proportion of the budget set aside for capital expenditure. The municipal infrastructure programme, urban renewal, hospital rehabilitation, investment in road construction and maintenance and several major water projects are key initiatives. In many of the areas of capital expenditure, private sector participation is key to enhancing the quality and effectiveness of government spending.

The RDP calls for the building of the economy though both sustainable, accelerated growth and a redistribution of income and opportunities. The macroeconomic dimensions of this commitment are set out in the 1996 Growth, Employment and Redistribution strategy (GEAR). GEAR sets out our policy objectives for reintegration into the global economy, the reprioritisation of government spending, an expansion of infrastructure investment, industrial development, labour market stability, skills development, the restructuring of state assets, all of this within the context of a sound fiscal and financial framework.

In essence our macroeconomic policies are focused on effecting the structural reforms needed for sustainable growth and development.

- Overcoming the balance of payments constraint by improving the export capacity of our economy requires a more competitive economy. Exports have responded strongly to the changed policy environment. Exports of manufactured goods have increased whilst the share of gold and other minerals has declined. We have now had four years of strong export growth. This trend has continued through the first quarter of 1998. We expect the current account deficit for the year to be below 1.5 per cent of GDP.
- A sustainable fiscal policy is another key component. We have been undergoing a major exercise of expenditure reprioritisation and budget reform. There have also been major improvements in tax collection. We have made good progress, not only in reducing the deficit butt in reprioritising expenditure and we will continue to do so. For the 1997/98 financial year, the deficit was 4,1 per cent against a target of 4 per cent. This is after we provided an additional R1.5 billion in support to KwaZulu Natal and the Eastern Cape Province. These funds were made available in terms of Section 100(1)(a) of the Constitution. For 1998/99 our target is 3,5 per cent, which we believe is entirely achievable despite the changed economic circumstances.
- No economy can achieve sustainable growth and development in the face of high inflation. The monetary policies pursued by the South African Reserve Bank are aimed at achieving price stability. This is what the Constitution requires it to do. In the past few months monetary policy has had to tighten in response to the fall in the rand so as to protect the domestic economy against inflation. Monetary policy decisions are the responsibility of the governor alone. We have repeatedly stated that the independence of the Reserve Bank over monetary policy is not open for debate.
- Higher levels of investment both domestic and foreign are required to generate growth. Since our own savings level is inadequate, we have to attract foreign savings. However, we recognise that we do so in a rapidly globalising world where capital moves relatively freely across borders. The decisions as to where to invest is measured by the same benchmarks across nations – and sentiment is not one of the measures used. Our strategy is therefore focused on effecting structural transformation. We have also emphasised the need for greater transparency – we are fully compliant with the requirements of the IMF's SDDS (Special Data Dissemination Standards); we publish a comprehensive Budget Policy Statement; a Budget Review; monthly reports on the state of public finances; and more recently the SARB has started to publish on a monthly basis the NOFP. We live in a world where there is no shortage of information, indeed there is perhaps information overload. However, what we often lack is sufficient analysis.

- Restructuring of state assets continues to be an important part of the strategy. We have successfully completed a number of deals: Telkom; SunAir; Airports Company; radio stations and Aventura. On the agenda for this year are: Transnet; and Safcol.
- All of this is underpinned by a number of critical structural reforms. These include: a shift to medium-term expenditure budgeting and the introduction of the MTEF at both the national and provincial level, and a shift of focus to outcomes and outputs; the appointment of primary dealers in government debt and the shift to a weekly auction system; the introduction of the repo system; reforms of the tariff regime; an autonomous SARS; the phased relaxation of exchange controls; the development of private public sector partnerships.

It is this combination of policies that makes up GEAR. GEAR is designed to effect the strengthening of those parts of the economy necessary to effect structural transformation.

We all know that the results, in the short term have not always reached the targets we set for ourselves. It is also important that we recognise that the current difficulties will render some of these targets even more elusive.

We are examining the areas in which the policy framework can be strengthened. One such area is the labour market. We know that more must be done to overcome the scourge of unemployment and our submission to the Job Summit reflects the seriousness of our commitment.

We know that we have chosen the tougher road to growth and development. But we continue to believe that it is the correct road and our resolve to succeed has probably never been stronger.

In conclusion let me reflect briefly on some economic fundamentals.

- We are now in our sixth year of economic expansion, and although we would all like to see stronger growth, we need to remind ourselves that real structural transformation of this economy has really just started and it will take time. The depreciation of the rand and the consequent tightening of monetary policy requires that we review our growth assumptions which we are presently doing.
- I have already pointed to the strong performance of our exports and noted that the current account deficit has stabilised at below 1.5 per cent of GDP.
- Capital inflows for the first quarter of this year were strong. There has been a net inflow of capital not related to reserves of over R11 billion. We did not unfortunately escape the latest recent bout of Asian flu and the past three months have seen significant pressure being put on the currency and consequently there have been capital outflows. Our reserves are now R32.65 billion (US$5,3 billion) and the NOFP is US$ 22,9 billion. We understand fully that although the SARB's operations in the forward market are not unique – as it turns out many central banks run forward positions – they are not well understood by the market. The Bank has already withdrawn from the long-term forward market and will with time withdraw from the short-term forward market.
- We have succeeded in bringing down inflation – the CPI increase for the twelve months to June 1998 was 5.2 per cent. Although the recent depreciation of the rand will put

upward pressure on inflation average inflation for 1998 is expected to be around 6,5 per cent.

- The medium-term outlook remains positive. This is the second-year of decline in inventories, we believe that this trend is bottoming-out and that growth will strengthen s the inventory cycle turns. Exports are expected to respond positively to rand competitiveness. Public sector investment is accelerating. Although monetary policy is likely to remain tight in the short term, it is expected that private consumption and investment spending will increase as interest rates ease in the medium-term. Demutualisation will provide added momentum.
- Structurally, our economy is significantly different to the Asian economies: we have a well capitalised and sound banking sector, a fact that was most recently recognised by the IMF Article Four mission; our financial markets are liquid and significant strides have been made to improve transparency; we have a sustainable and improving revenue base. Although much work is still needed to improve tax morality and the culture of payment, we have turned the corner and SARS will remain focused on improving efficiency and effectiveness in revenue collection.

In conclusion let me say that I believe that we remain well on track with the transformation of our economy. There is no cause for pessimism. Of course there are many, many challenges which remain. But then transformation is a long-term project, it is not for the faint-hearted. It requires commitment, courage and an unwavering belief in ourselves and our ability as a nation. Staying the course – having the right policies, the institutional framework and required instruments – is the only way in which to navigate the rough seas of the global markets.