ADDRESS TO THE STANDARD BANK EMERGING FINANCIAL MARKETS CONFERENCE

TREVOR MANUEL, MP, MINISTER OF FINANCE

CAPE TOWN, 2 OCTOBER 2003

Ladies and Gentlemen,

It is a great privilege for me to address you this evening.

I was going to start by saying that these are interesting times for emerging markets. But, when over the past ten years have I not been able to start with this statement? From Mexico to Russia to East Asia to Argentina to Brazil, all have experienced "interesting times" over the past 10 years.

The sheer volume of capital that washes about in the high seas of global markets always gives us something to talk about.

If the volume weren't sufficient, the speed of the winds blowing that capital in one direction and then abruptly and without warning in completely the opposite direction means that we have had to add a new section to our economic vocabulary.

"Sudden stops" and "external dominance" have entered the vernacular of the captains of emerging market economies and their navigators in a big way.

Even the luxury liners of the world economy are subject to the cold realities of global capital flows. They too must maintain constant vigilance to avert disasters from the icy discipline of global capital, especially those that are hungry consumers of global savings.

But, the responsibility weighs even heavier on those entrusted with piloting developing yachts that have elected to remove the false protection that the harbour of capital controls offers.

Our President reminded us recently that South Africa remains a divided and scarred society.

Even 10 years after the end of apartheid, we face a society with a well-developed, sophisticated formal sector. Where multi-million rand deals, lavish salary packages and conspicuous consumption for the privileged are the order of the day.

This exists alongside an informal sector where unfair deals, meagre salaries and inconspicuous consumption are a reality.

Sadly, this is not limited to an underprivileged few. That would be bad enough!

There remain too many South Africans who are not yet realising the economic benefits that democratic freedom can offer.

True, we have done remarkably well in our endeavour to undo the damage of 40 years of apartheid. The results of the 2001 census shows that we have been making progress in many areas:

- Access to basic services, such as water, electricity and sanitation has improved across the board.

- The proportion of people with access to a telephone has risen by over 50%.

- Access to education has improved considerably, with over 20% of young people now completing grade 12, up from 16% 5 years earlier.

Our own figures show that the number of people receiving social security grants has risen from 2,5 million in April 1997 to 6,7 million last month.

While we have come a long way, our journey to achieve economic emancipation is a protracted one. But, as we have demonstrated in the past, as a nation we have the tenacity, commitment and courage to surpass our own expectations.

And we will continue to do so into the future as we question the barriers to growth, as we encourage debate on our developmental path and as we remain committed to the sensible policies that will sustain us.

In his recent Richard T Ely Lecture[1], Stanley Fischer reminded us that:

"As far as economics is concerned, the big challenge is poverty, and the surest route to sustained poverty reduction is economic growth. Growth requires good economic policies".

To address our development challenges, it is imperative that we do not eschew the benefits that global capital affords us. Opening the economy to global capital markets facilitates faster economic growth and development.

But, this does not obviate the need for prudent management of domestic economic policy.

In fact, it heightens the need so that our shared future is built on a sustainable growth path.

Our development trajectory is firmly grounded on the foundation of our macroeconomic framework, which we have sought to put in place over the past 10 years.

---

[1] Fischer, S "Globalisation and its Challenges: Richard T Ely Lecture, *in The American Economic Review, May2003.* American Economic Association, USA.

It is this framework that has enabled us to reprioritise spending for social service delivery, while reducing the fiscal deficit to 1,2 per cent of GDP last year from over 7 per cent in 1994.

It is this framework that has allowed us to increase real spending over the medium term, as the cost of servicing our accumulated debt continues to fall.

In 2000, we introduced the inflation-targeting framework to provide a transparent and efficient nominal anchor for the Reserve Bank to fulfil its constitutional mandate, namely managing monetary policy.

Since then, the framework has come under pressure in the face of the currency depreciation toward the end of 2001 coupled with volatile food prices. Our target measure of inflation, CPIX, rose from, within the target range between August and October 2000, to a peak of over 11 per cent between October and November 2002. A significant increase after having touched a low of 5,8 per cent a year earlier.

Not an auspicious start by any measure. So, does this mean that inflation targeting is not right for us?

No, absolutely not. As in the past, we must stay on course, because price stability is fundamentally important in our quest for economic development and freedom.

And, inflation targeting provides us a monetary policy framework within which we can most readily plot a course toward this freedom.

That price stability matters should be uncontroversial. But, it matters across so many dimensions that some deserve a mention.

Our most vulnerable citizens – the poor, the elderly and those surviving on social security grants – are unable to protect themselves against rapid inflation.

Quite simply, they lack the sophistication and access to financial instruments to protect their meagre incomes and savings against inflation.

As policymakers, we simply must assist them along two fronts. First, we must conduct policy in a way that minimises the threat of inflation. Second, when appropriate, we must be – and we are – able to provide emergency relief in the face of volatile prices, especially food prices.

Further, acceleration of growth and development requires rapid expansion of investment spending. While we have enjoyed 15 quarters of uninterrupted growth of investment spending, the investment rate of around 15 per cent of GDP is insufficient to propel us into the warmer currents, where rapid growth and development in sustainable.

Achieving price stability complements other policies that lower uncertainty to investors, thereby encouraging higher levels of investment and improving the effectiveness of other policy measures to promote investment.

Preserving price stability is important for protecting domestic savings. This is fundamental if we are to allow our poor to safeguard their livelihoods against uncertainty. And, equally, to provide valuable capital for investment.

Price stability provides a stable platform for fiscal planning and policymaking. Ensuring that the promises we make to our people, are promises we can keep.

However, as with all sound policy, it cannot be implemented in isolation. There are things we must do to ensure that it operates effectively. These include:

- Remaining committed to this sole objective of monetary policy, as enshrined in the Constitution.

- Maintaining a sound fiscal framework to prevent the remotest possibility of so-called fiscal dominance. From this path, South Africa cannot and will not flinch.

- Ensuring that our financial markets are sophisticated, competitive and well-regulated.

  The task is tough and demanding. But, we are fortunate to have highly capable regulators and an industry committed to working to the highest standards. This must continue if we are to attain and maintain our rightful place in world markets.

  As the participants in the industry at the hub of savings intermediation, you carry important responsibilities. First to ensure we get the maximum economic benefit from our meagre savings.

  Second, to respect and facilitate the democratisation of our society by overcoming prejudices and encouraging the development of emerging entrepreneurs. Continued commitment to the principles agreed at the Financial Sector Summit last year are paramount.

- Ensuring the successful implementation of the framework demands the highest level of transparency and commitment from the Reserve Bank.

  The Governor has established many forums for interaction. These must be utilised to the fullest possible extent to build further credibility around this.

In the end, it is the entire crew that must guide the ship to tranquil waters.

Our continued commitment to macroeconomic stability underpins everything we do.

As we continue to build our credibility in the international community: – reflected in continuous ratings upgrades and diminishing risk premia on our debt – we will manage the external factors that negatively affect the framework, especially exchange rate volatility.

Also, Government's around the world must have the temerity to tame the tumult in international capital markets.

As John Gray[2] reminds us, intervention is often required to reconcile the dynamism of capitalism with social stability.

This demands a boldness of leadership on the international front to enhance the effectiveness of both capital and trade markets and to ensure that all countries benefit from the opportunities which globalisation offers.

I am encouraged. The multilateral institutions are taking tentative steps to provide more stability in the global economy and to ensure the benefits are more equitably shared.

Lest we lose sight of our core objective in this pool of economic jargon, let us remind ourselves of why we operate in this environment and what our challenge are.

We do this to ensure:

- That everyone who wants to work can work.
- That we can provide for our families.
- That we can realise our dreams, hopes and aspirations.

The outlook going forward is beginning to brighten.

Indeed, we can see dawn breaking after the recent global slowdown.

The IMF is telling us that global growth will breach 4 per cent next year, underpinned by acceleration of growth in the US in particular.

But, work is needed to ensure this is not a false dawn.

The global growth trajectory is not without its challenges. In particular, the world is too reliant on the US as a source of global growth. Worrying external imbalances make such reliance less sustainable in the long term.

It is, therefore, imperative that structural reform continues in other developed regions, especially Europe to boost growth potential and balance world growth.

The gathering momentum and calmer domestic waters will underpin continued expansion of our own economy in the years ahead.

Further, net private capital flows are expected to be US$110 billion in 2003, the highest level since the mid 1990s. We are well-placed to ensure we can capture a substantial share of this to channel into economic growth and development.

In closing, the challenges of growth and development lie before us as a nation.

As the industrialised world picks up, we must strive to ensure a balanced growth agenda that generates sufficient capacity to meet our development challenges.

Our sights are firmly set and we will stay the course.

I thank you.

---

[2] Gray, John. 1999. *False Dawn: The Delusions of Global Capitalism.* Granta Publications, London. Quote at page 210.