

**Description : ADDRESS TO SOCIETE GENERALE FRANKEL POLLAK 21<sup>ST</sup> ANNUAL INVESTMENT CONFERENCE**

**Date : 24 FEBRUARY 1998**

**Speaker : MR. ANDRE ROUX DEPUTY DIRECTOR GENERAL OF FINANCE ON BEHALF OF TREVOR MANUEL, MP, MINISTER OF FINANCE**

**SOUTH AFRICA'S ECONOMIC STRATEGIES PROGRESS REPORT**

Two weeks tomorrow I present the 1998/99 Budget in Parliament in Cape Town. The day remains one of the highlights of our year, but as the years pass, so many of our cards are on the table already, and our policy base so well established, that the event becomes less and less of the red briefcase variety shrouded in secrecy and surprises. It's more of a milestone along the road to achieving our economic objectives.

Our economic objectives are well known. Our goal is to transform this economy from one characterised by low growth, high inflation, periodic balance of payments difficulties and huge disparities in income and access to services, to a fast growing economy with stable prices in which opportunity and infrastructure are equitably shared. To this end, we have adopted the economic strategy we call the Growth, Employment and Redistribution strategy.

The topic I have been asked to address today is: what progress have we made with that strategy? To the extent that the Budget is a vehicle for such a report-back, my comments must be limited so as to not steal whatever thunder is left in our ever-more transparent process.

I am confident that we are well on the way to achieving our economic policy objectives. Economics is an imprecise science, so the Growth, Employment and Redistribution strategy should not be judged on a set of projections made at a point in time, but on the extent to which there is evidence of the structural transformation in the economy.

Such evidence abounds. One of the most impressive areas has been in our export penetration. GEAR recognised that without a sustained increase in South Africa's export performance, the growth of this economy would forever be hostage to the balance of payments. Export growth since the GEAR was announced has far exceeded expectations. Non-gold exports grew by 12,1% in 1996 and 9,3% in 1997, against projections of 9,1% and 8% respectively. The resulting reduction in the current account deficit played an important role in protecting the currency during the global turbulence that has so affected countries in Asia.

Not only have exports grown strongly, but they have grown way in excess of what could have been projected on the basis of price and demand trends in our major export market. This indicates that South African firms are capturing market share and are able to do so on the basis of improved competitiveness. Although one must take surveys at their face value, it was interesting to note the finding by the Economist Intelligence Unit in their recent study, that of 32 similar countries measured, South Africa is the cheapest place to do business.

GEAR identified that price stability was crucial to improved confidence and investment in South Africa. Inflation was projected to be 8% in 1996 and 9,7% in 1997. In fact, inflation averaged 7,4% and 8,6% respectively and is anticipated to fall further in 1998. The long-term decline in the level of inflation is very good news for investment and the long-term stability of the currency. Lower inflation also protects the poor and vulnerable by protecting their incomes. The fact that price stability has been maintained despite the depreciation of the rand also speaks of the ability of South African firms to source imports in such a way so as not to pass on the impact of the depreciation in price changes to the detriment of consumers.

Achieving price stability is strongly supported by the attainment of the fiscal targets set out in the GEAR. Despite the huge challenge of integrating the previous administration and the development of a new structure of government involving three autonomous spheres, we have come laudably close to meeting our fiscal targets. Despite lower growth and inflation than projected in 1997/1998, the budget deficit is not anticipated to exceed 4,3% of GDP, down a full percentage point from the previous year, and dramatically less than when this government assumed office.

Achieving fiscal discipline has not been at the expense of delivery. In the past year alone, a further 600 000 people have gained access to clean drinking water, 421 000 new telephone and 400 000 electricity connections have been made. In that bad news usually sells well, you will have heard a lot about the difficulties in some of the provinces that caused pensioners to receive their pensions late, but you probably would not know that the government provides social pensions of R470 per month to over two and a half million people which includes seven hundred thousand people who receive disability pensions. South Africa today has one of the best-developed systems of social security provision for the elderly of any country of a similar income. You would have heard about hospitals that are threatened with closure, but not of the 302 new clinics, 122 clinics that would have been extended or upgraded and 56 mobile clinics provided by the end of 1997. Similarly of the immunisation of over eight million children against measles, the five million immunized against polio and that seven out of 10 children are fully immunised and nine out of 10 have an immunisation card.

On the subject of fiscal policy, another of the core pillars of the GEAR is that of Budget reform, and in this we have made significant progress. We have moved to a medium term budgeting system, the key features of which are that:

- on Budget Day, we will publish three-year forward estimates on expenditure, consistent with Government's policy priorities and commitments;
- in the process of drawing up the three year budgets, we have undertaken detailed analysis of the policy implications of budget projections;
- co-operative teams, consisting of national and provincial treasuries and line departments, have analysed key sectors and reported to Cabinet and Executive Councils, which has meant that quantified, analysed policy options have been presented to political office bearers for decision; and
- we published, on the 2<sup>nd</sup> December last year, a Medium Term Budget Policy Statement, to enable Parliament and the institutions of civil society to participate meaningfully in the debate.

We have thus moved to a much more transparent process, which also allows for a lot more certainty. Credibility is enhanced as investors are able to see the longer term commitments of government. Line departments and provinces will now be able to plan their spending to a much greater degree.

Although we have not achieved the growth targets set out in GEAR, the lower than expected GDP growth must be seen in the context of increased price stability and improved export performance. The fact that our economy has thus far withstood the ravages of the Asian market crisis, with a currency that actually appreciated 1% in 1997, indicates that our fundamentals are strong. Let me be the first to say, however, that one is never out of the woods, and we can never become complacent.

The continued decline in formal sector employment remains a crucial concern to policy makers. We should recognise that the prospects for a recovery in employment in manufacturing are good. Infrastructure expansion will also continue to create some jobs, with the Development Bank alone expecting to contribute to 60 000 new jobs this year flowing from new infrastructural projects it intends to finance. We are also seeing the outsourcing of non-core services and supplies to unmeasured small business agencies, consultancies or producers, and that semi-formal or informal modes of employment are rising relative to formal modes of employment. We believe that much of the employment growth that is occurring will remain unrecorded until the revamp of the employment statistics which is currently underway at the Central Statistical Services produces results.

Although Government should not be seen as an employment agency, through various infrastructure and public works projects, building of roads and labour-based poverty relief programmes, government programmes are estimated to have generated 50 000 employment opportunities in 1996 and early estimates indicated that this figure was even higher in 1997. In the 1997/98 budget, government allocated R300 million for labour-based poverty relief programmes, aimed specifically at rural areas and those which most affect women and children.

It should also be noted that productivity growth has improved dramatically from a low of less than 1 percent throughout the 1980's to an average increase of 2% between 1991 and 1995. In 1996 it increased at an average annual rate of 3 percent and 4 percent in the third quarter of 1997.

To sum up, therefore, although there are areas of our economic strategies that are taking longer to show results, there is still considerable evidence that the economy is undergoing a period of profound transformation, and in the manner we envisaged in the GEAR programme.

In approaching the remaining years of this century, we are still having to deal with a past that meant excess for a few and poverty for many. The road to reducing poverty through a sustainable improvement in the economic circumstances of all citizens is going to require further discipline, but we are confident that it is the correct road, and that it will lead to the future that this country deserves.