

Description : SPEECH TO PARLIAMENT ON THE SUBJECT FOR DISCUSSION: CURRENCY VOLATILITY AND ITS EFFECT ON THE SOUTH AFRICAN ECONOMY

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Speaker : MINISTER TREVOR MANUEL

SPEECH TO PARLIAMENT ON THE SUBJECT FOR DISCUSSION: CURRENCY VOLATILITY AND ITS EFFECT ON THE SOUTH AFRICAN ECONOMY

Madam Speaker, Honourable members

Transformation of our society and our economy requires 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 asked to believe that there are quick and easy solutions and that all we have to do is follow the advice that everyone so freely proffers. We listen to all this advice and in the end we as government do what our people have elected us to do, which is to govern.

Over the past two months, we have all lived through a number of increases in interest rates. These increases have brought home to each of us, together and separately, the huge risks of mounting debt. The sense of impoverishment occasioned by higher interest rates – many working families find themselves poorer by many hundreds of rand each month – has resulted in all manner of emotions. Anger, frustration, powerlessness and despair all feature strongly amongst these feelings. These strong feelings are complicated by the fact that it is hard to identify, or personalise the cause of the frustration – the bank, its manager, or the Reserve Bank; the government, its ministers or all politicians; capitalism, rich people, foreigners or hedge funds – all of these individuals or groups have at one or other time been seen in the minds of many as the cause of the problem.

Of course these are difficult times for all of us, it is precisely at times like this that our resolve and commitment is tested. But this is not the first, nor will it be the last time that we have to deal with difficult situations and change adversity into challenge. Nations which emerge from such adversity stronger are nations led by people who get together to find solutions. A time such as this is not one for petty politicking.

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.

No one can deny that there has been substantial reprioritisation of government expenditure towards social delivery and greater equity. Millions more people have access to education, social welfare benefits, primary health care, clean water and housing than ever before.

Achieving the broad socio-economic goals set out in the RDP requires a set of economic policies that are sustainable in the medium to long term.

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. The strong response of our exports is testimony to our policies. Foreign investors have also responded positively as evidenced by BMW's decision to locate an entire production line in South Africa and the VW decision to meet a large European order out of this country to mention but two examples.
- A sustainable fiscal policy is another key component of our policy. We have been undergoing a major exercise of expenditure reprioritisation and budget reform. There have also been major improvements in tax collection.

Our goal has been, and will continue to be, to free up more and more resources to invest in social spending. We accept that we cannot forever spend more than we collect in taxes. That the shortfall between revenue and expenditure – the deficit – has to be financed. Put differently, the more money spent on meeting interest payments means that less is available for redistribution and transformation. It is for this reason that we have embarked on a difficult but necessary programme to reduce the deficit. We have made good progress, not only in reducing the deficit but in reprioritising expenditure and we will continue to do so.

- 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 further 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 and 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 levels are inadequate, we have to attract foreign savings. However, 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. We are a small open economy and must therefore recognise that we shall remain caught in this vortex of rapid capital movement until we can successfully address all of the structural difficulties.

It is this combination of policies is what 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 must recognise that many of the tough decisions have imposed sacrifices – these we have taken voluntarily, rather than have them imposed from the outside. Our resolve to succeed has probably never been stronger.

Madam Speaker, the challenges we face may at times appear daunting, however, we have all come to far, endured too many hardships and made too many sacrifices to reverse the course we have embarked on.

In understanding the present situation we need to be mindful of the fact that, over the past year many countries have been affected by rapid changes to exchange rates, interest rates and consumer prices. This financial crisis has had significant economic and social costs. The pain experienced by working people in the East Asian countries is intense. It is clear that in all of these economies the recovery is going to take time and has already reversed some of the remarkable gains that had been achieved from two or more decades of high growth.

The East Asian crisis has of course had an impact on other economies in the world. The contagion has spread to countries such as Canada, Chile and Australia. In this context it is important to understand that we have not been singled out, and that the cause is not the local bank manager. In the face of the East Asian crisis, investors became uncertain of the stability of the emerging economies and moved their capital out of these economies and currencies to more traditional markets and currencies. In other words, they sold their rand investments and bought dollars. Speculators also focused on a number of countries to test for possible weaknesses that could potentially be exploited and to challenge the resolve of governments.

The lessons we draw from all these experiences is that what matters are sound economic policies and solid economic institutions. In other words, a strong banking sector and manageable levels of personal and corporate debt among others. In addition it is the way in which we as a nation respond to the challenges that counts.

Many of us may recall the strongly emotive pictures taken in Seoul, South Korea, last year when, in response to the deep crisis which afflicted their economy, Koreans lined up at banks to hand over their gold jewellery to assist the country to ride out the crisis. By any measure, a strong response from a people who want to succeed as a nation. We are not calling on South Africans today to hand over any valuables to the national chest. But, we are saying that we must respond as a nation. This is our country, these are our policies and we must demonstrate our unwavering commitment to make them work.

Because of our resolve and the tenuous circumstances in which we take decisions, every action and every step has to be carefully measured for the best results.

A government in such a frame of mind does not abandon its sacrifices to whim, caprice, or to naivete. It considers its choices very carefully.

Madam Speaker let me now turn to a matter which some irresponsible members of the opposition have raised as an issue. I was, as the Reserve Bank Act requires, consulted on the question of a successor to Dr Chris Stals. After careful consideration it was decided that Mr Tito

Mboweni was the best person for the job and that he should be appointed as Special Adviser to Dr Stals and, with effect from August 1999, as his successor. This announcement, as we are all aware, was made by the Deputy President on 11 July.

It has been suggested by opposition parties that I had foolishly and carelessly given speculators advance notice, allowing them an opportunity thereby to weaken both the currency and the economy. If anybody can produce any individual or any shred of evidence that I acted in this manner, I am willing to pay the price because I would here be misleading both this Parliament and the people of South Africa. But similarly, those who have made such accusations without any proof must take responsibility for their reckless actions. I call on them to apologise unreservedly to this Parliament and the people of this country.

Indeed had they bothered to establish the facts, they would have noticed that the movements in the rand are almost perfectly correlated to news about the position of our reserves and the existence of a net open forward position which the markets are not particularly keen on. But I guess that these points are lost when the objective is to try and score a few cheap political points, without any regard for the economic and social consequences caused by such utterances. They must be reminded that the hardship which the higher interest rates impose does not discriminate along party lines, and a few wild shots across the bow are unlikely to garner any votes.

I want to repeat that the difficulties we face as a nation today, are not a cause for gloating, they are scarcely an occasion for party politicking. If anything, these circumstances must galvanise us all - they must strengthen our resolve to pursue the path that we have chosen, the hard route to a sustainable better life for all.