NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER 257

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DUE TO PARLIAMENT: 18 OCTOBER 2006

MR J BICI (UDM) TO ASK THE MINSTER OF FINANCE:

What is the National Treasury's position on the current state of consumer credit, especially the financial environment where interest rates appear to be on an upward curve but household debt remains high? ***N1438E***

REPLY:

In South Africa, the rise in household debt reflects the response of households to lower interest rates and an easing of constraints to access to finance. This increase in indebtedness heightens the sensitivity of households to changes in interest rates, income and asset prices, however it should be emphasised that the cost of debt is still at historically low levels lessening the negative impact that small interest rate changes may imply for households.

However, National Treasury recognises that the macroeconomic effects of greater indebtedness will crucially depend on the distribution of debt across households, as well as the debt-to-asset ratio of households. If the increase in aggregate debt reflects greater borrowing by households with lower income or less collateral, the increase in macroeconomic sensitivity of the household sector is likely to be greater.

Consequently, National Treasury is monitoring household debt dynamics and is supportive of measures, such as the dti's National Credit Act which lessen the vulnerability of poorer households.

Annexure A: Background discussion

South African household indebtedness has increased considerably recently, both in absolute terms as well as relative to disposable income. This has raised concerns about the sustainability of household debt and the associated implications for the stability of the financial system.

The recent increase in household debt has been associated with a rise in house prices which has provided a boost to consumption spending (as households accessed financing for consumption through the increased collateral value of their property). This trend may be reversing, due to recent interest rate increases and a slowing in the housing market impacting on overall consumption and demand.

The higher aggregate debt to disposable income levels may also impact on consumption in later years[1] and mean that households will be more exposed to shocks and will also *remain exposed for a longer period in time*.

Increased indebtedness causes an upward shift in domestic demand (consumption and/or investment), usually exerting upward pressure on prices in asset, goods and the labour market, given short run supply constraints and causing a deterioration in the trade balance. In South Africa, and other emerging markets recently, the increase in credit financing has not directly resulted in higher inflation (in part reflecting the higher degree of trade openness) but has rather led to deterioration in the current account and nominal exchange rate depreciation.

Increased household indebtedness in and of itself is not likely to be the source of a negative shock to the economy but a negative shock in the economy may be amplified due to the increased indebtedness.

The characteristics of indebted households may differ from those of the population as a whole. If indebted households tend to have

[1] With lower inflation, the real value of debt is eroded slower and thus a higher proportion of disposable income may still be required to service the debt in later years, lowering consumption in those years.

higher incomes, they may be less exposed to rises in unemployment and interest rates than the aggregate numbers would suggest, although they may be more exposed to fluctuations in wealth caused by asset price movements. This effect will also depend on whether the increase in debt has been concentrated in a small number of households or distributed evenly across the population.

Annexure B: The latest numbers

M3 & PSCE growth August 2006

M3 & PSCE growth update

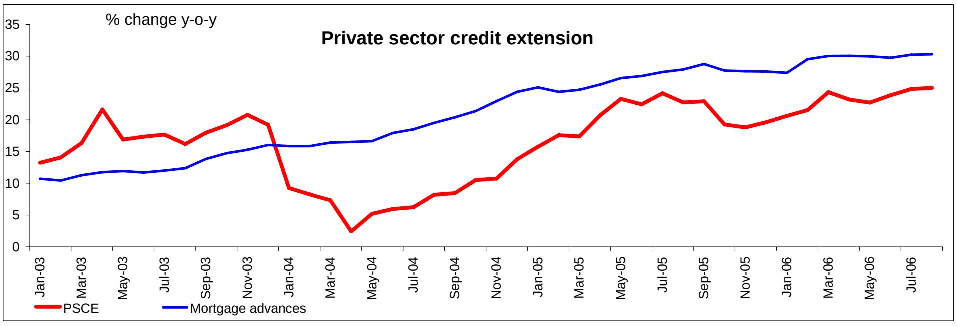
August-06

11-Oct-06

	% change *year-on-year*			% change *month-on-month*			Average for the year:		
	Jun-06	**Jul-06**	**Aug-06**	**Jun-06**	**Jul-06**	**Aug-06**	**2003**	**2004**	**2005**
Monetary aggregates									
M1A	18.0	14.2	13.3	4.4	-0.2	1.2	11.2	11.6	19.4
M1	21.8	25.4	16.8	2.5	4.2	-1.6	8.2	8.7	19.3
M2	19.8	18.1	17.7	0.7	1.0	1.6	15.9	11.6	17.4
M3	**23.0**	**21.2**	**21.4**	**0.9**	**1.1**	**1.4**	**12.9**	**13.1**	**19.9**
Credit aggregates									
Total credit extension	19.7	21.5	21.2	0.8	3.0	1.5	16.1	12.7	14.6
Net government deposits	-149.3	-168.7	-135.9	833.7	2.1	-25.4	-21.3	-6.8	-97.9
Private sector credit extension	**23.8**	**24.8**	**25.0**	**1.7**	**3.0**	**1.2**	**19.2**	**13.8**	**19.6**
Core PSCE	23.3	24.6	26.1	1.8	2.8	2.0	12.5	16.5	21.3
PSCE excluding mortgages	19.1	20.5	20.6	1.3	3.2	0.1	21.3	6.9	13.5
PSCE aggregates									
Investments	33.8	29.0	12.2	-0.1	5.0	-8.1	169.8	-6.2	2.8
Bills discounted	0.8	5.3	5.7	6.7	4.4	-7.0	-13.2	-29.9	-2.5
Instalment sale credit	18.2	18.1	16.0	1.9	1.7	0.0	16.4	22.7	19.8
Leasing finance	20.4	20.7	20.7	1.5	1.7	2.0	18.6	15.8	18.8
Mortgage advances	29.8	30.2	30.3	2.1	2.7	2.5	16.0	24.4	27.6
Other loans and advances	16.4	19.6	24.6	1.4	3.6	1.9	7.0	5.6	13.5

Major contributors to private sector credit extension: **Aug-2006**

over the past *year*		over the past *month*	
Mortgage advances	13.8	Mortgage advances	1.2
Other loans and advances	7.5	Investments	-0.6
Instalment sale credit	1.9	Leasing finance	0.1
Investments	0.9	Instalment sale	0.0
Leasing finance	0.9	Other loans and advances	0.6
Bills discounted	0.0	Bills discounted	0.0
Total	**25.0**	**Total**	**1.2**



Private sector credit extension (PSCE) growth accelerated in August, to a new record high of 25,0% y-o-y from 24,8% in July. This was despite a R3.0 billion securitisation of Standard Bank instalment sale book in the month, which subtracted substantially form instalment sales credit numbers and thus PSCE numbers. The August figure was higher than the Reuters consensus forecast of 21,7%. The high and rising debt levels and rising consumption expenditure will increase expectations of more increases in interest rates (following the 50 bps rate hike in August). Core PSCE growth (excluding investment and bills discounted) also accelerated, to 26,1% y-o-y and 2,0% m-o-m in August from 24,6% y-o-y and 2,8% m-o-m in July. The acceleration in private sector credit growth and rising debt levels pose more risk to the outlook for macroeconomic stability.

The major drivers of both annual and monthly PSCE growth in August was mortgage advances, as the level of house prices remained high, even as house price inflation started to slow. Growth in mortgage advances remained high at 30,3% y-o-y, a new record high from 30,2% in July. Although increased consumer confidence and interest rates at 25-year lows since April 2005 (and before the latest rate hike) stimulated vehicles, furniture and general retailers sales in the past year, both instalment sales and leasing categories recorded more stable annual growth rates.

M3 growth increased to 21,4% in August (lower than the Reuters consensus of 21,7%) from 21,2% in July and thus remained below the record high of 26,8% y-o-y in March.

Annexure C: OECD Household wealth and debt to nominal disposable income

Annex Table 58. **Household wealth and indebtedness**[1]

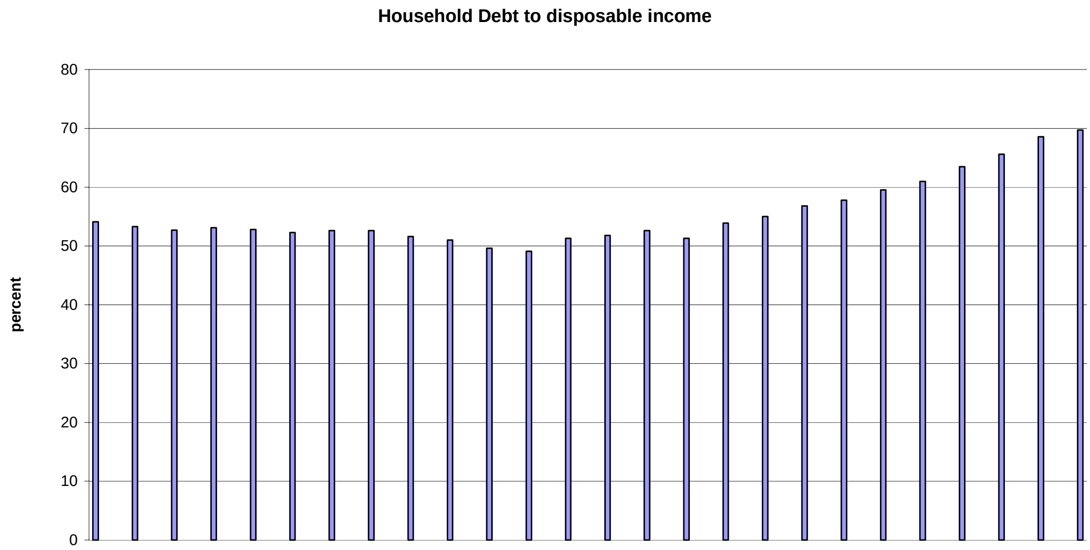
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada												
Net wealth	477.3	481.3	497.7	509.2	514.5	514.2	509.0	508.9	520.4	518.6	518.3	520.4
Net financial wealth	212.8	223.8	236.8	245.2	249.5	246.0	246.7	241.1	238.9	227.8	218.0	212.8
Non-financial assets	264.5	257.6	260.9	264.0	265.0	268.1	262.2	267.8	281.5	290.8	300.3	307.6
Financial assets	315.9	327.2	343.6	354.8	361.5	360.1	359.4	355.6	356.4	348.4	342.0	340.4
of which: Equities	61.3	63.2	71.2	80.6	88.3	89.4	90.3	91.4	90.2	88.1	85.8	86.8
Liabilities	103.1	103.4	106.8	109.6	112.0	114.0	112.6	114.6	117.5	120.7	124.0	127.6
of which: Mortgages	68.5	68.8	70.8	71.6	71.8	71.8	69.6	69.6	71.0	72.9	74.6	76.8
France												
Net wealth	471.8	462.5	481.8	491.3	498.2	549.6	550.3	555.0	575.3	633.3	696.9	771.1
Net financial wealth	158.7	154.4	169.8	182.4	187.1	213.7	207.4	190.0	184.7	192.8	194.9	208.2
Non-financial assets	313.1	308.1	312.0	309.0	311.1	335.9	342.9	365.1	390.6	440.5	502.0	562.9
Financial assets	239.4	220.2	236.6	250.3	260.0	289.6	284.7	268.5	260.8	273.6	278.8	299.3
of which: Equities	90.5	53.4	59.2	61.4	68.1	87.6	84.5	70.6	63.9	71.1	73.0	83.7
Liabilities	80.7	65.7	66.8	68.0	73.0	75.9	77.3	78.5	76.1	80.8	83.9	91.1
of which: Long-term loans	51.2	49.7	50.5	51.2	51.5	53.9	53.5	53.8	54.9	58.1	..	..
Germany												
Net wealth	530.4	541.0	551.7	563.9	575.6	584.3	576.4	563.7	565.6	572.4	572.2	..
Net financial wealth	124.8	129.7	135.8	146.6	154.4	164.1	160.3	159.2	154.3	166.6	172.6	..
Non-financial assets	405.6	411.3	415.9	417.3	421.2	420.2	416.1	404.5	411.3	405.8	399.6	..
Financial assets	217.8	226.5	237.1	251.3	263.4	277.8	274.4	270.6	265.7	276.9	280.8	..
of which: Equities	39.0	41.2	45.4	54.7	61.8	74.3	74.4	69.5	56.3	60.5	59.9	..
Liabilities	93.0	96.8	101.3	104.7	109.0	113.7	114.1	111.3	111.4	110.2	108.2	..
of which: Mortgages	55.6	58.7	62.3	65.1	67.1	71.0	71.6	71.2	72.0	71.9	71.1	..
Italy												
Net wealth	724.5	716.6	715.6	763.0	789.3	822.2	834.3	836.2	874.2	910.5	960.6	..
Net financial wealth	229.2	218.7	225.4	250.9	278.1	313.3	316.4	297.1	286.0	285.7	297.5	..
Non-financial assets	495.3	497.9	490.2	512.0	511.2	508.9	517.9	539.1	588.2	624.8	663.1	..
Financial assets	261.8	250.9	258.3	286.3	317.2	357.1	362.5	343.6	334.6	337.0	352.2	..
of which: Equities	33.7	38.3	36.7	49.7	64.0	97.3	100.9	85.6	78.3	76.0	85.6	..
Liabilities	32.6	32.1	32.9	35.4	39.1	43.7	46.1	46.5	48.6	51.3	54.7	..
of which: Medium and long-term loans	15.5	19.1	19.2	20.5	22.6	26.0	27.5	28.2	30.4	32.9	36.8	..
Japan												
Net wealth	746.6	735.8	746.6	736.6	725.6	749.3	750.3	745.8	725.0	730.6	724.9	..
Net financial wealth	272.3	281.2	290.9	292.5	295.2	326.1	335.9	341.4	341.0	360.4	367.3	..
Non-financial assets	474.3	454.6	455.7	444.1	430.4	423.2	414.5	404.4	384.0	370.2	357.6	..
Financial assets	396.9	411.4	424.0	420.9	427.8	459.5	471.1	477.8	475.1	493.9	499.2	..
of which: Equities	46.8	45.9	40.3	28.9	27.0	45.6	41.7	32.0	29.8	42.2	47.8	..
Liabilities	124.6	130.2	133.2	128.4	132.6	133.4	135.2	136.4	134.1	133.5	131.8	..
of which: Mortgages [2]	46.8	49.6	53.8	55.5	56.0	58.9	61.4	63.4	66.0	63.1	63.9	..
United Kingdom												
Net wealth	543.9	555.9	568.1	618.5	660.8	743.8	737.0	677.4	680.1	713.0	755.0	..
Net financial wealth	257.1	285.6	289.1	335.8	348.3	402.0	368.9	306.8	247.5	252.9	257.7	..
Non-financial assets	286.8	270.2	279.1	282.7	312.5	341.8	368.2	370.5	432.6	460.0	497.3	..
Financial assets	364.7	392.3	393.1	440.3	455.9	512.7	482.5	424.6	377.5	393.6	412.8	..
of which: Equities	70.2	76.2	75.8	91.9	91.7	120.3	110.2	78.1	55.4	60.2	65.1	..
Liabilities	107.5	106.6	104.0	104.5	107.5	110.7	113.7	117.7	130.0	140.7	155.1	..
of which: Mortgages	79.5	78.1	77.2	76.6	78.5	80.8	82.8	85.7	94.3	103.8	113.6	..
United States												
Net wealth	481.0	511.7	531.2	566.4	583.3	629.1	578.2	543.6	499.0	540.2	556.9	576.5
Net financial wealth	274.4	303.8	325.0	359.5	373.7	412.7	358.6	316.2	263.7	294.9	296.5	293.7
Non-financial assets	206.6	208.0	206.2	206.9	209.6	216.4	219.5	227.4	235.3	245.3	260.3	282.8
Financial assets	366.1	397.2	420.0	455.6	470.8	513.9	460.8	421.8	373.6	412.4	420.4	425.6
of which: Equities	85.1	105.2	119.8	146.7	157.8	191.5	154.7	127.6	95.7	115.1	116.9	113.9
Liabilities	91.6	93.5	95.1	96.2	97.0	101.2	102.2	105.6	109.9	117.6	123.9	131.8
of which: Mortgages	63.5	63.2	63.8	64.2	64.8	67.5	68.0	71.6	76.6	83.7	89.7	98.2

1. Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).
   Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets consist mainly of dwellings and land. For Canada, Germany, Italy and the United States, data also include durable goods. For Canada, France, Japan, the United Kingdom and the United States, data also include non-residential buildings and fixed assets of unincorporated enterprises and of non-profit institutions serving households, although coverage and valuation methods may differ. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

2. Fiscal year data.

Sources: Canada: Statistics Canada; France: INSEE; Germany: Deutsche Bundesbank; Italy: Banca d'Italia; Japan: Economic Planning Agency; United Kingdom: Office for National Statistics; United States: Federal Reserve.

Annexure D: South African household debt to disposable income



	31-Mar-00	30-Jun-00	30-Sep-00	31-Dec-00	31-Mar-01	30-Jun-01	30-Sep-01	31-Dec-01	31-Mar-02	30-Jun-02	30-Sep-02	31-Dec-02	31-Mar-03	30-Jun-03	30-Sep-03	31-Dec-03	31-Mar-04	30-Jun-04	30-Sep-04	31-Dec-04	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06
Series1	54.1	53.3	52.7	53.1	52.8	52.3	52.6	52.6	51.6	51	49.6	49.1	51.3	51.8	52.6	51.3	53.9	55	56.8	57.8	59.5	61	63.5	65.6	68.6	69.7

Annexure E: South African household net worth[2]

Table 1 Balance sheet of the household sector for selected years

R billions

Year ended 31 December	1975	1980	1985	1990	1995	2000	2005*
Total assets	64,5	139,5	287,0	607,6	1 226,5	1 921,0	3 969,1
Tangible assets	35,9	65,3	123,7	219,4	315,5	504,2	1 225,0
Residential buildings	18,5	34,8	73,0	136,8	211,4	363,2	1 005,3
Other tangible assets	17,3	30,5	50,6	82,6	104,2	141,0	219,8
Financial assets	28,6	74,2	163,4	388,3	911,0	1 416,8	2 744,1
Liquid assets	15,4	30,4	60,5	97,3	152,4	296,4	686,3
Interest in pension fund and long-term insurers	8,7	25,8	70,9	200,2	537,0	851,4	1 420,1
Other assets	4,5	18,0	32,0	90,7	221,5	269,0	321,9
Total liabilities and net worth	64,5	139,5	287,0	607,6	1 226,5	1 921,0	3 969,1
Mortgage advances	4,5	8,9	19,0	50,6	119,4	176,9	398,3
Other credit	3,6	7,8	24,7	57,4	98,5	147,4	262,4
Net worth	56,4	122,8	243,3	499,6	1 008,6	1 596,6	3 308,4
Net worth including durable consumer goods (memo item)	61,9	132,7	264,3	543,6	1 094,8	1 742,7	3 579,6

Individual items may not add to totals due to rounding

* Preliminary estimates

Introduction

The historical data for liquid assets and long-term insurers from 1975 to the early 1990s were constructed using the methodology in Aron and Muellbauer (2006a) as were the pension up to 1998.

The balance sheet measures exclude household ownership of foreign assets, some of the financial assets of unincorporated businesses, and ownership of corporations not publicly quoted on the stock exchange. In common with other published estimates of household wealth, the present study also excludes the value of social security-related benefits.

The estimation of household balance sheet aggregates

Assets

[2] Aron, J. Muelbauer, J & Prinsloo J. 2006. Estimating household-sector wealth in South Africa. South African Reserve Bank Quarterly Bulletin , June 2006

- Tangible assets of household comprise the value of residential buildings and the capacity stock of unincorporated business enterprise.
- Financial assets are deposits with banks and mutual banks, interest in pension funds and long term insurers, participation mortgage bond scheme, unit trust, equities, as well as government and public-enterprise stocks and corporate bonds.

Liabilities

The two main components of debt are mortgage advances and other credit extended to household (open account credit, personal loans extended by banks, credit card facilities, etc. The bulk of household debt is borrowings from the banking sector

Balance sheet estimates and trends in wealth

Brisk increase in household spending in recent years is explained by trend in net wealth of the household sector. The recent strong growth in household wealth can mainly be attributed to substantial increase in asset prices, particularly in the private property and equity markets.

The current economic indicators suggest that a lower turning point in the wealth-to- income ratio was reached in 1998, as the increase in the market value of total assets outweighed the increase in household debt and disposable income during 1990 to 2005. However, the relative importance of the components of net wealth underlying these trends showed substantial changes over the past three decades

The moderation of South Africa’s debt-to-net-wealth ratio since 1998 was the net results of a slowdown in the growth of household debt until 2002 and the subsequent increase in asset prices, particularly in residential housing during 2003 and 2004. In addition, households’ net wealth received a further boost in 2005 on account of a surge in equity prices. However, the recent surge growth in household debt was strong enough to result in a modest increase in the debt-to-net-wealth ratio of the household sector in 2005.

Conclusion

The availability of household balance sheet data can make significant contribution to the effective assessment of households' consumption behaviour and provides valuable insights regarding the management of a country's national wealth. With balance sheet data, a more comprehensive measure of income comprising consumption plus the change in net wealth can be calculated, thereby incorporating the effect of developments such as capital gains and extending the conventional national accounts analysis.

QUESTIONS TO THE DEPUTY PRESIDENT FOR WRITTEN REPLY
Date of publication: 9 June 2006
(NA)

.Mr I O Davidson (DA) to ask the Deputy President:

1) Whether, with reference to the Accelerated and Shared GROWTH initiative for South Africa (ASGISA), the Government plans any interventions to ensure (a) a more competitive and (b) a less volatile exchange rate; if not, why not; if so, in respect of each category (i) what interventions have been planned and (ii) what considerations were taken into account in reaching these conclusions;

2) Whether any steps or interventions have been developed to facilitate the integration of the second economy into the formal economy; if not, why not; if so, (a) what steps or interventions, (b) how will they be implemented and (c) what are the timeframes for their implementation?

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REPLY:

1. Government does not have any plans to change its policy of allowing the market to determine the level of the exchange rate. The level of the rand relative to other currencies is influenced by a wide range of factors, such as changes in commodity prices, and purchases of rand-denominated financial assets, most of which are beyond the reach of government intervention. Nevertheless, macroeconomic policies have contributed to a more stable and competitive exchange rate via lower inflation and interest rates, a low fiscal deficit, more rapid economic growth, and the elimination of the Forward Book and increase in reserves.

   Currency volatility tends to occur when inflows and outflows are large and one-way. Reducing the volatility in the nominal value of the currency can be more sustainably achieved as an indirect result of a more vigorous and developed economy exhibiting continuous inflows and outflows of capital as a result of thousands of daily economic transactions.

   Greater levels of economic activity are, in part, a result of more efficient and more competitive economy. The ASGI-SA programme aims to improve the competitiveness of the economy through a range of measures, including but not limited to improving the logistics system, increasing the supply of skilled labour through initiatives such as JIPSA and improving the regulatory framework to reduce the costs of doing business.

Without interventions directly addressed at reducing South Africa's historical inequalities, growth is unsustainable. A key mechanism within ASGI-SA is to use the **leverage of the first economy** to address the second economy.

The first mechanism is to leverage the **increased levels of public expenditure**, especially **investment expenditure**, to develop **small businesses and broad based empowerment** addressing such issues as: access to finance, preferential procurement, sectors that are labour intensive and review of regulations impact on this sector**.** For public enterprises, the State Owned Enterprise Procurement Forum is codifying and spreading best practices for affirmative procurement.

Linking small businesses to opportunities deriving from the 2010 FIFA World Cup is another task for government. Private companies will also be persuaded to engage in affirmative procurement and the implementation of the relevant provisions of the BEE Codes of Good Practice and the relevant sector BBBEE charters will be closely monitored. Timely payment by government will also be monitored by the DTI. Infrastructure projects will be labour-intensive where feasible.

To achieve ASGI-SA's goal of halving unemployment and poverty by 2014, Government will have to work more closely with women and the youth. With regard to women the focus will be on:

- Human resource training;
- Ensuring they have access to finance;
- Fast tracking them out of the second economy;
- Ensure their significant participation in agriculture and creative industries;
- Improve their access to basic services; and
- Increase their participation in expanded public works programme.

On the youth front, one of the interventions is to target unemployed graduates for jobs or learnerships. Government supports the Umsobomvu Youth Fund initiative to register unemployment graduates on their database. Government will ensure that the focus on youth development is intensified in all spheres of government. Among other things during the next financial year, Government will – set up new Youth Advisory Centres, enrol at least 10 000 young people in the National Youth Service, intensify the Youth Cooperative Programme and closely monitor the impact of Government programmes on youth skills training and business empowerment as an integral part of our National Effort.

Sector strategies, such as the strategies for tourism or BPO, will have elements **addressing development goals in the second economy**. For example, the economic cluster of government is committed to ensure that at least 5 BPO operations are established in poor areas with relatively little economic activity. The targeted beneficiaries are youth and women.

There are several other components of BBBEE which will be leveraged to support shared growth. These include:

- Provisions for access to finance for women and youths,
- Funding commitments for housing and small business loans,
- Skills development commitments,
- Social responsibility commitments, and
- Other commitments to enterprise development. In addition,
- BBBEE charters will be assessed from time to time to establish how broad based their impact has been.

Another key second economy **intervention is the Expanded Public Works Programme.** This programme will be expanded beyond its original targets in terms of ASGI-SA. Firstly, its mandate has been extended to a larger number of roads and some larger road projects. This will entail about R4.5 billion in additional funds over the coming Medium Term Expenditure Framework period, about 63 000 more people maintaining roads, and about 100 000 additional people in jobs averaging 6 months in roads building and training. In addition, 1 000 more small black contractors will be developed. New access roads will have a significant impact on conditions and opportunities in some poor and rural areas.

Other new elements of the EPWP will be a concerted roll-out of its **Early Childhood Development component, home based care** and the finalisation of a process to support local governments in developing larger EPWP projects.

A final set of second economy interventions is centered around realising the value of dead assets—land, houses, livestock, skills, indigenous knowledge and other assets that have intrinsic value not currently realised. These include:

- More rapid movement towards the formalisation of land tenure;
- The livestock improvement programme mentioned amongst the provincial projects;
- Efforts to ensure that the financial services charter commitment on housing finance is effectively implemented;
- Improvements in planning and zoning capacities; and
- Support for the development of cooperatives.

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1003

DATE OF PUBLICATION: 25 AUGUST 2006

DUE TO PARLIAMENT: 7 SEPTEMBER 2006

MR I O DAVIDSON (DA) TO ASK THE MINISTER OF FINANCE:

(1) Whether the Government intends revising its 2006-07 Gross Domestic Product (GDP) growth forecast as a result of the two repo rate increases announced since the forecast at the time of the budget; if not, why not; if so, what is the revised figure;

(2) whether the Government anticipates that the said repo rate rise will have a negative impact on the Accelerated and Shared Growth Initiative for South Africa's (Asgisa) targeted growth rate of 4,5% between 2005 and 2009 and 6% thereafter; if not, what is the position in this regard; if so, what are the relevant details? ***N1283E***

REPLY:

(1) As part of the process of developing our Medium Term Budget Policy Statement (MTBPS), which will be released on October 24th, the National Treasury runs its macroeconomic model and develops a new economic forecast for the MTEF period. Until that process is finalised, and released in the MTBPS, the official economic forecast remains that published with the Budget in February.

Of course, the new forecast will take into account the economic developments (including the repo rate adjustments) of the period since the Budget, and this will result in some modification of that forecast.

(2) The advantages of maintaining low and stable inflation rates are well-documented. Maintaining low inflation to ensure domestic competitiveness in foreign markets remains important to our approach to economic policy.

Although recent interest rate adjustments may have a negative impact on output in the short run, it will ensure that inflation remains within the target band over the long run. This in turn will be beneficial for competitiveness and hence sustainable growth over the long run.

As indicated above, I will present a revised economic outlook, taking these short term effects into account, to Parliament on 24 October 2006.

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1037

DATE OF PUBLICATION: 1 SEPTEMBER 2006

PROF B TUROK (ANC) TO ASK THE MINISTER OF FINANCE:

(1) Whether the Government has signed any agreements with the International Monetary Fund and the World Bank since 1994; if so, what are the relevant details;

(2) whether the Government has borrowed any finances from these bodies since 1994; if so, what are the relevant details;

(3) whether there are any documents or official speeches on South Africa's relations with these bodies; if not, what is the position in this regard; if so, what are the relevant details? ***N1321E***

REPLY:

(1) Since 1994, South Africa has not entered into any agreement with the International Monetary Fund (IMF). In accordance with the Funds Articles of Agreement we engage on an annual basis through the Article IV Consultations. This is part of the Funds mandate for international surveillance, whereby there is a review of a member countries economic condition. There is also no agreement with the World Bank but we have a Country Assistance Strategy which is currently being reviewed.

(2) Since 1994, South Africa has not drawn down on IMF finances. The last time South Africa borrowed from the IMF was in 1993 under the Compensatory and Contingency Financing Facility. This money was repaid in 1998. On the Bank side, assistance was provided through:

- A Project lending Facility for the Department of Trade and Industry through the Industrial Competitiveness and Job Creation Project in 1997. An amount of US$ 24.5 million has been fully disbursed;
- A technical assistance loan for the Municipal Financial Management Support Project which was approved in 2002 for an amount of US$ 15 million;
- Various Global Environmental Facility (GEF) grants for nature conversation and development projects to the value of US$ 25.7 million. Projects include: the Cape Peninsula Biodiversity Conversation and Development Project (US$ 12.3 million); the Maloti-Drakensberg Transfrontier Conversation and Development Project (US$ 7.9 million); and the Greater Addo Elephant National Park Project (US$ 5.5 million).

(3) Yes. Both the Country Assistance Strategy and the outcomes of IMF missions for the Article IV consultations are available on the World Bank, the IMF and National Treasury websites, respectively.

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1062

DATE OF PUBLICATION: 1 SEPTEMBER 2006

MR I O DAVIDSON (DA) TO ASK THE MINISTER OF FINANCE:

(1) In light of the commitment by the Southern African Development Community (SADC) to establish monetary integration within the next decade, what reference will be made to the need for (a) macro economic convergence of countries in the SADC and the convergence of macro economic stability indicators including rates, budget deficit ratios, public debt ratios, external balances of the current account, exchange rates and interest rates and (b) economic convergence, namely the (i) need for less-developed countries within the SADC to catch up with the richer countries in terms of development indicators such as per capital income and (ii) discrepancy in economic welfare and development that exists among the member states;

(2) what implication will such monetary integration have in respect of the sovereignty of policy decision-making in respect of exchange rate and interest rate policies;

(3) what regard is to be given to (a) the low level of intra-regional trade in the SADC region if South African exports to the rest of Africa are excluded and (b) the lack of economic diversification of countries in the SADC, other than South Africa, their dependence on primary commodities as a driver of economic growth and their susceptibility to exogenous external shocks of international price movements of such primary commodities? ***N1383E***

REPLY:

(1) (a) The issues raised by the Honourable Member are indeed very pertinent, and though one can deal with some of them from a theoretical perspective, it is too early to provide specific answers at this stage. As you are no doubt aware, SADC member States have committed themselves to certain key objectives as set out in the Regional Indicative Strategic Development Plan (RISDP) – however, this is an ***indicative*** programme, which together with the proposed Finance and Investment Protocol, spell out a roadmap in respect of regional integration in general, and for the financial markets sector in particular.

The Heads of State of the SADC have decided to convene an extraordinary meeting at the end of October 2006 to provide guidance on how such a regional integration agenda is to be implemented. It is not possible to provide the answers you seek until specific proposals or agreements emerging from the political and technical processes around the coming Summit have been formally adopted by member countries.

(b) (i) See above.

(ii) See above.

(2) See above.

(3) (a) See above.

(b) See above.

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1261

DATE OF PUBLICATION: 22 SEPTEMBER 2006

DR S M VAN DYK (DA) TO ASK THE MINISTER OF FINANCE:

(1) (a) For what reasons are the recommendations by the International Monetary Fund in the section iv investigative report into the South African economy (details furnished) not positively received and interpreted by the National Treasury and (b) why does he refer to it as the IMF's interpretation of labour regulation rather than weighing up the inherent pros and cons for South Africa;

(2) whether the skills levy ought to be replaced with a more effective structural tax subsidy; if not, why not; if so, what are the relevant details;

(3) whether in-service training should offer companies tax relief in order to raise the skills levels of employees; if not, why not;

(4) whether the over recovery of tax does not leave enough space to implement the above-mentioned in order to phase out the skills levy; if not, what is the position in this regard; if so, what are the relevant details? ***N1664E***

REPLY:

(1) (a) The Hon member is wrong to conclude that government or the National Treasury is not receiving or interpreting the report positively. If the Honourable member refers to my press statement on the IMF's Article IV report (issued on 8 September and available on the National Treasury website), he will see that far from not receiving it positively, we in fact welcome the report. It is in the nature of such reports that we cannot be expected to agree on everything, and such differences (which are also highlighted in the press release) should not be exaggerated.

(b) The view that South Africa's labour legislation is too restrictive and discourages job creation is the IMF's interpretation and not necessarily the view of all commentators. As you are aware, government constantly reviews the implementation outcomes of most policies, and is looking at stimulating growth and jobs through the ASGISA process.

(2) No. As is customary, any changes to South Africa's tax system will be dealt with in the Budget.

(3) The learnership allowance has been in place for the last few years and provides an incentive for companies to upgrade the skills levels of their staff and to employ new learners. This incentive has been further enhanced in the 2006 Budget, see page 76 of this year's Budget Review.

(4) No, as any higher than projected revenue this year does not necessarily mean that we can reduce any tax for future years. Even if this is the case, government also has a choice as to which tax to reduce, and is not limited to reducing or phasing out the skills levy.