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CONFIDENTIAL  
FM CAPE TOWN  
TO PRIORITY F C G  
TELNO 397  
OF 260800Z AUGUST 1987  
INFO PRIORITY UKDEL IMF WASHINGTON, JOHANNESBURG, PRETORIA  
INFO PRIORITY TREASURY, DTI, BANK OF ENGLAND

MIPT: SOUTH AFRICAN ECONOMY

1. WHEN I CALLED ON DE KOCK IN PRETORIA LAST WEEK, HE FOREWARNED ME OF HIS INTENTION TO MAKE A SPEECH OF THIS KIND. THE PERFORMANCE OF THE SOUTH AFRICAN ECONOMY HAS IMPROVED AFTER THE DISASTERS OF 1985 AND DIFFICULT EARLY MONTHS OF LAST YEAR. BUT THE RESERVE BANK AND TREASURY HAVE BEEN CONCERNED AT THE FAILURE OF THE RECOVERY TO GAIN MORE MOMENTUM. DE KOCK IS PREDICTING 2 PERCENT REAL GROWTH THIS YEAR AND UNLESS CONDITIONS IMPROVE, ABOUT THE SAME NEXT YEAR. THAT IS NOT SUFFICIENT TO KEEP AHEAD OF POPULATION GROWTH (2.5 PERCENT PER ANNUM) OR PROVIDE THE JOB OPPORTUNITIES NEEDED FOR THE MASSIVE NUMBERS OF PEOPLE COMING INTO THE LABOUR MARKET. DE KOCK NOTED THAT WHILE THERE IS A GREAT DEAL OF LIQUIDITY IN THE SOUTH AFRICAN BANKING SYSTEM THIS MONEY IS CHASING A LIMITED NUMBER OF EXISTING ASSETS, CAUSING A BOOM ON THE JOHANNESBURG STOCK EXCHANGE, BUT NO INCREASE IN FIXED CAPITAL INVESTMENT.

2. I ASKED DE KOCK ABOUT THE EFFECTS OF SANCTIONS AND DISINVESTMENT. HE SAID THAT SANCTIONS SO FAR WERE HAVING LITTLE EFFECT, THOUGH THEY DID ACT AS A FURTHER DISINCENTIVE TO COMPANIES IN THE EXPORT SECTOR TO INVEST. THERE WAS PLENTY OF SOUTH AFRICAN CAPITAL READY TO TAKE OVER, AT BARGAIN PRICES, THE ASSETS OF THE US COMPANIES AND BRITISH BANKS WHO HAD DISINVESTED. DISINVESTMENT WAS HAVING A DISPLACEMENT EFFECT. PRECISELY BECAUSE IT WAS SO ATTRACTIVE TO BUY UP THOSE ASSETS, AVAILABLE CAPITAL WAS GOING IN THAT DIRECTION RATHER THAN INTO NEW INVESTMENT.

3. DE KOCK ATTRIBUTES MUCH OF THE UNCERTAINTY TO THE GOVERNMENT'S STOP/GO PROCESS OF REFORM AND TOLD ME THAT HE HAD BEEN MAKING THIS CLEAR TO EVERYONE FROM THE PRESIDENT DOWN. HE IS PROUD OF SOUTH AFRICA'S DEBT PERFORMANCE, POINTING OUT THAT IN ADDITION TO INTEREST PAYMENTS, ONE-SIXTH OF SOUTH AFRICA'S TOTAL EXTERNAL DEBT IN CONSTANT DOLLAR TERMS HAS BEEN REPAYED IN THE PAST TWO AND A HALF YEARS. SOUTH AFRICA HAS VIRTUALLY REPAYED ITS IMF LOAN, UNLIKE OTHERS IS NOT SUFFERING FROM "DEBT FATIGUE" AND IS AT PRESENT UNDER-BORROWED. DE KOCK HAS NO ILLUSIONS ABOUT THIS SITUATION BEING CORRECTED WITHOUT POLITICAL PROGRESS. HE IS RIGHTLY CONCERNED ABOUT THE CONSEQUENCES IN THE LONGER TERM FOR A COUNTRY WHICH BADLY NEEDS EXTERNAL INVESTMENT CONTINUING AS A NET EXPORTER OF CAPITAL, AND MADE CLEAR HIS DETERMINATION TO PRESERVE SOUTH AFRICA'S LINKS WITH THE INTERNATIONAL BANKING COMMUNITY.

RENWICK

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