Mr. Stals looks at the future of financial co-operation in Southern Africa

Speech by the Governor of the South African Reserve Bank, Dr. Chris Stals, at a conference on Southern Africa: Resources, Investment and Trade, arranged by Forum Southern Africa Limited in London on 10/7/97.

1. The reintegration of South Africa in the world economy

Good progress has been made over the past four years with the reintegration of South Africa in the world economy. The political and social changes introduced in South Africa paved the way for the removal of international economic punitive actions that partly isolated the country's economy from the rest of the world during the ten years preceding the fully democratic election of a Government of National Unity in April 1994.

Even before the election took place, the rest of the world gave its support to the moves towards democracy by lifting sanctions, boycotts, disinvestment campaigns and trade restrictions. Since 1994, the following major changes took place in South Africa's international economic relations:

(i) South Africa became a full participating member again in various multinational institutions such as the World Bank, the International Monetary Fund, the United Nations and the African Development Bank.

(ii) Agreements were entered into with the World Trade Organisation for a substantial revision over a five year period in the protective import tariff structure, and certain discriminatory export subsidies were removed.

(iii) Exchange controls were substantially relaxed to introduce full convertibility for current account transactions, to remove all exchange controls applicable to non-residents and gradually to lift the remaining exchange controls applicable to the outward investment of capital by South African residents.

(iv) An extensive liberalisation programme of the South African financial markets included major changes in the capital market, e.g. to allow for foreign and corporate ownership of stock broking members of the Johannesburg Stock Exchange, and the opening up of the South African banking sector for foreign competition. There are now 17 foreign banks with branches and subsidiaries in South Africa, and about 60 foreign banks with representative offices.

(v) A number of new bilateral, regional and international economic co-operation agreements were entered into, such as the Southern African Development Community (SADC) and the arrangements with the European Union for closer economic co-operation.

These changes have had a material effect on South Africa's international economic relations and are reflected in a very visible way in the South African balance of payments. Over the three years 1991 to 1993, the current account of the balance of payments showed a surplus of US $5.8 billion, and the capital account a net outflow of $7.1 billion. The official foreign reserves therefore declined by $1.3 billion. When the new Government came into power in April 1994, the country had virtually no official foreign reserves left.

Over the past three years, that is from 1994 to 1996, the current account of the balance of payments showed an accumulated deficit of $5.1 billion. During this period, a net capital inflow of $7.4 billion, enabled the Reserve Bank to replenish the exhausted foreign reserves gradually. At the end of June 1997, the Bank held an amount of $4.9 billion in reserves, which was still relatively low (sufficient cover for 7 weeks' imports), but nevertheless much better than four years ago.

The balance of payments developments merely reflected the changes in total gross domestic economic activity. The average rate of change in gross domestic product over the three years 1991 to 1993 showed a decline of 0.6 per cent, compared to an average rate of increase of 3.1 per cent over the next three years. The average rate of change in gross domestic expenditure changed from a decline of 0.3 per cent per annum from 1991 to 1993, to 4.9 per cent growth over the next three years.

2. South Africa's role in Southern Africa

The developments over the past few years enabled South Africa to take on a more active part in the economic development of the Southern African region. Economic co-operation in Southern Africa has been formalised through the Southern African Development Community Treaty of August 1992, which incorporated the following goals:

* To achieve development and economic growth, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through regional integration;
* To promote and maximise productive employment and the utilisation of resources of the region; and
* To achieve sustainable utilisation of natural resources and effective protection of the environment.

To achieve its objectives, SADC shall:

* Harmonise political and socio-economic policies and plans of member states;
* Mobilise the peoples of the region and their institutions to take initiatives to develop economic, social and cultural ties across the region, and to participate fully in the implementation of the programmes and operations of SADC and its institutions;
* Develop policies aimed at the progressive elimination of obstacles to free movement of capital and labour, goods and services, and of the peoples of the region generally among member states;
* Promote the development of human resources;
* Promote the development, transfer and mastery of technology, and
* Improve economic management and performance through regional co-operation.

The Treaty provides for other political, social and cultural objectives which are not of direct relevance for the enhancing of financial co-operation in the region.

South Africa has been given the task to manage the Finance and Investment Sector of SADC, and the South African Reserve Bank was given the important role to co-ordinate the functions of the central banks of the twelve member states in the promotion of the SADC objectives. For this purpose, a Committee of Governors of Central Banks of SADC was created, with a small secretariat in the South African Reserve Bank, and a research unit to provide assistance to the Governors' Committee.

In drafting its mission statement, the Committee of Governors designed a model for financial co-operation that was described as a "bottom-up" approach. This approach is based on building financial co-operation by first laying an appropriate foundation in the form of an effective institutional framework for the financial system in each country. More ambitious schemes for the harmonisation or integration of macroeconomic monetary policies can be considered at a later stage, i.e., once central banks, competitive private banking sectors and financial markets have been established on a firmer basis, and are functioning effectively in most of the participating countries.

In its work programme, the Committee of Governors has made good progress with the following projects:

* The development of a monetary and financial statistical data base, captured in the computer of the Reserve Bank in Pretoria, with the intention of providing real-time on-line access to the information to all participating central banks;
* The development of an information bank on the policies, structures and functions of the 12 SADC central banks;
* The harmonisation of the development of national payment, clearing and settlement systems within each one of the twelve SADC countries, and the eventual provision for a network of cross-border settlements in the region;
* The co-ordination of exchange controls, and the gradual removal of exchange controls, in the region. South Africa is now relaxing its exchange controls still applicable to foreign capital investment by South African residents in respect of investments in other SADC countries faster than for the rest of the world;
* The co-ordination of training of officials of all SADC central banks. The South African Reserve Bank has introduced a specialised Training Institute for Central Banking, and is now providing specialised courses in central banking and financial management for its own staff and officials of other central banks in the SADC region.
* There is also a more ambitious training programme provided through the Macroeconomic and Financial Management Institute (MEFMI), with its headquarters in Harare. The objective of MEFMI is to assist Governments (Treasuries) and central banks to develop internal capacity for macroeconomic management;
* The development of the quality of, and capacity for, proper bank regulation and supervision. Some harmonisation is encouraged on policies such as bank licensing, minimum prudential financial requirements, and regular auditing of banking institutions. A joint effort is also being made to take the necessary steps against illegal banking activities in the region, such as money laundering and pyramid schemes.
* The forum for closer co-operation amongst the central banks of the region has now been firmly established. The work of the Committee, apart from consolidating the projects so far undertaken, will now be extended to the level of the private banking sector, and of the development of financial and capital markets in the common interest of the region as a whole.

3. Economic challenges for South Africa

South Africa now finds itself in the challenging situation that, in one direction, its financial markets are rapidly being integrated in the global financial system, and in the other direction it is becoming more and more part of the difficult process of supporting and stimulating economic development in the Southern African region. At the same time, daunting problems still remain unsolved in the internal economy of the country. The new Government has had remarkable success over the past few years in the implementation of disciplined fiscal and monetary policies, and has gained confidence from investors and business people in its determination to apply sound economic policies in general.

Little progress, however, has been made in solving one of the most urgent problems of the South African economy, and that is to create sufficient jobs for the growing population. Total employment in the country is now hardly more than what it was at the beginning of the nineties.

South Africa’s economic policies must, at this stage, maintain good balance between the process of globalisation, the satisfaction of the dire basic needs of the domestic population, and the desire to assist in the economic development of the region. In a holistic approach, these various objectives are not in conflict with each other, but are in many respects supplementary. Successful participation in the global financial markets will lead to a larger inflow of foreign investment capital into South Africa, that will enable the country to do more for the upliftment of its own people, and for the development of the region. But this will subject all the macroeconomic initiatives of the country to the disciplines of the global investment community. These disciplines, tested by world-wide experience, amply reward successes, but severely punish failures.

With its economic policies of the past few years, South Africa has already proved that it is determined to stand up to this challenge. The process of economic liberalisation and integration into the global markets must continue; economic co-operation in Southern Africa, and with countries further North in Africa, will be extended; the implementation of the Government’s Reconstruction and Development Programme, and the Strategy for Growth, Employment and Redistribution, will be pursued with vigour and determination.

The task ahead is not an easy one. South Africa, and Africa, will need all the assistance it can get from the rest of the world. There is growing optimism that, in the early years of the 21st century, Africa will succeed in its concerted efforts to improve the living conditions of all the people of our Continent.