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Will Sanctions Against South Africa Work?

Financial sanctions and foreign policy

Will sanctions against South Africa work or not? Is there a difference in the effectiveness of financial as opposed to trade sanctions? These remain important and still unanswered questions two years after the passing of the Comprehensive Anti-Apartheid Act by the US Congress. In this article by two of the authors of a major recent study on the matter of economic sanctions published by the Institute for International Economics in Washington DC, an attempt is made to measure the success of financial sanctions from a foreign policy point of view in terms of an index involving 103 cases, excluding the case of South Africa. The findings, however, will be of interest to all those concerned with the prospects for sanctions and this country.

Financial flexibility and the assessment of future cash flows

In an uncertain world, financial flexibility has a twofold importance: it is necessary to the exploitation of business opportunities, but it is necessary also to ensure that if events turn out negatively, the enterprise is able to survive. Critical to an assessment of financial flexibility is an analysis and evaluation of cash flow, yet current accounting practice leaves much to be desired regarding cash flow disclosure. Caroline Koornhof of the Wits Accounting Department suggests how disclosure in South Africa might be improved.

The individual investor on the JSE

Professor Colin Firer, of the Wits Business School, reports here on an investigation of individual investment behaviour in SA during calendar 1985. The investigation took place against a background of declining individual investor involvement during the first half of the 1980s and a rise in the relative importance of institutional investors. Clearly, any continuation of such a trend could be important because of its effects on JSE efficiency and the whole nature of the market economy in SA. While the stock market boom of 1986/7 witnessed a recovery of individual investor activity, the uncertainty of the current situation has again affected individual investors adversely. Professor Firer's findings, therefore, are of continuing relevance to research analysts.

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South Africa, hi-technology and the future: Affordable imperative or fantastic folly?

Conventional wisdom holds that economic growth in SA is essential to balance population increase and demographic change. But this may be too simplistic a view. There is enough evidence to suggest that growth can have unexpected consequences. It may well aggravate the inequality of income and wealth distribution. It is necessary, therefore, in South Africa's case to put growth under the microscope of analysis if correct conclusions are to be reached and errors of planning avoided. This is done by Peter Brews in this thoughtful paper.

**Investment basics XXII – Options in the gilt-market
Part 2 – Pricing and use of options**

David Bullard's first article set the scene for an understanding of options trading. In this article, he deals with the matters of options pricing and their use in portfolio investment.

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The measures taken during the first half of 1988 to subdue the domestic growth of the South African economy were inadequate, even at the time they were announced, and it should have surprised nobody that they have had to be followed by additional monetary and fiscal action since June. The problem, again, is the balance of payments. After three years of substantial current account surplus, this has lapsed into deficit, and now the capital account has turned negative as well, resulting in an erosion of the reserve position. The point is that South Africa faces further negotiations with its foreign banking creditors in 1990 and it dare not enter those negotiations in a position of reserve weakness.

It is very sad that the economic upswing which dates from mid-1987 has been so short-lived. South Africa desperately needs growth because its population is increasing at a rapid rate and growth, therefore, is necessary merely to stand still in per capita terms. But the problem is more complicated than that. The average rate of population increase is around 2,5 per cent per annum, while the black urban population is increasing at over 7,5 per cent per annum. Even 3 per cent per annum, therefore, is an inadequate target for the growth of real GDP which averaged less than 1,5 per cent per annum during the first eight years of the decade.

The BoP problem has to do with the unusually high positive correlation that exists between real domestic demand growth and the growth of imports. This the authorities should have realised, but they appear to have been more influenced by the Government's desire to stretch the economic upswing out as long as possible to satisfy its own political needs. The last thing Mr P W Botha wanted was a recession in October and he has done all he could to avoid this. But by compromising on economic policy for a short-term political benefit, he may well have made the economic situation in 1989 worse. With the decline that has taken place in the rand exchange rate, an increase in inflation is almost inevitable and other inflationary pressure will rise if there is any capitulation on the matter of public sector pay. We face the prospect of a deficit before borrowing well in excess of 6 per cent of GDP (twice what Mr Barend du Plessis has indicated the level should be), and monetary policy is being compromised to prevent the interest cost burden of the farming community from rising.

What can be expected economically when both fiscal and monetary policy have been abandoned as serious instruments of government control? South Africa will need all the luck it can muster, but luck is not the substance upon which official policy should be made to depend.

The editor

Een-en-dertigste uitgawe
Winter 1988

Die maatreëls wat gedurende die eerste helfte van 1988 getref is om die binnelandse vraag in die Suid-Afrikaanse ekonomie te demp, was ontoereikend, selfs op die tydstip toe dit aangekondig is. Dit sou dus niemand verbaas het dat dit deur bykomende monetêre en fiskale optrede gevolg sou word nie – 'n beleid wat sedert Junie toegepas moes word. Die oorsaaklike probleem is weer eens die betalingsbalans. Nadat daar drie jaar lank 'n aansienlike surplus op die lopende rekening was, het dit in 'n tekort omgeswaai, en nou het die kapitaalrekening ook negatief begin raak, wat daarop uitloop dat die reserweposisie weggekalwe word. Die punt is dat Suid-Afrika in 1990 verdere onderhandelinge met sy buitelandse krediteure in die bankwese tegemoet gaan en hy durf nie daardie onderhandelinge aanknoop in 'n posisie van reserweswakheid nie.

Dit is baie jammer dat die ekonomiese opswaai wat van middel 1987 ondervind is, so kort van duur was. Suid-Afrika het groei uiters dringend nodig, omdat sy bevolking teen 'n vin-nige tempo toeneem en groei derhalwe noodsaaklik is om bloot net te kan water trap in per kapita-terme. Maar die probleem is eintlik ietwat ingewikkelder. Die gemiddelde bevolkingsgroei-koers is om en by 2,5 persent per jaar, terwyl die swart stedelike bevolking teen meer as 7,5 persent per jaar toeneem. Selfs 3 persent per jaar is derhalwe 'n ontoereikende mikpunt vir die groei van reële BBP wat gedurende die eerste agt jaar van die dekade gemiddeld minder as 1,5 persent per jaar gehandhaaf het.

Die betalingsbalans-probleem staan in verband met die buitengewoon hoë positiewe korrelasie wat daar bestaan tussen 'n reële binnelandse toename in aanvraag en die groei in uitvoere. Dit moes die owerheid besef het, maar dit wil voorkom asof die sterkste dryfveer die Regering se begeerte was om die ekonomiese opswaai so lank moontlik uit te rek om sy eie politieke behoeftes te bevredig. Die laaste ding wat mnr P W Botha wou gehad het was 'n resessie in Oktober en hy het alles in sy vermoë gedoen om dit te vermy. Maar deur 'n tussenoplossing te kies in sy ekonomiese beleid vir politieke voordeel in die korttermyn, kon hy wel met daardie kompromie veroorsaak het dat die ekonomiese situasie in 1989 gaan versleg. Met die besliste depresiasie in die rand se wisselkoers, is 'n toename in inflasie bykans onvermydelik en ander vorme van inflasionêre druk sal toeneem indien daar enige kapitulasie is in verband met die aangeleentheid van salarisse in die openbare sektor. Ons staar die moontlikheid in die gesig van 'n tekort voor lenings van ruim meer as 6 persent van die BBP (twee maal dit wat mnr Barend du Plessis aangedui het die vlak na verwagting sou wees), en monetêre beleid word in gevaar gestel om te keer dat die rentekostelas van die boerderygemeenskap styg.

Wat kan ekonomies verwag word wanneer sowel fiskale as monetêre beleid as ernstige instrumente van regeringsbeheer in die slag gebly het? Suid-Afrika sal al die geluk nodig hê wat hy kan monster, maar geluk is nie die hoofbestanddeel waarvan ampelike beleid afhanklik gemaak behoort te word nie.

Die redakteur