Prospects for the South African Economy

7 March 2018

Presentation to Eden Municipality Investment Summit

Centre for Economic Development and Transformation

National Vision for Growth and Development

- Mobilising vision and plan (income doubling plan of Japan, Malaysia Vision 2020. Ethiopia Vision 2025)
- State capacity to initiate growth and development
- High rates of capital formation (35% to 50%)
- Human capital upgrading
- Industrial upgrading
- Macro-economic policy (wider range of policy tools than Keynes)
  - **Multiple tools** (exchange rate, state control of finance, reserve requirements, capital controls, prescribed assets, credit quotas, differential interest rates)
  - **Multiple targets and objectives** (inflation, unemployment, growth, sectors)
  - Inflation targeting (one target, one tool) is primitive
  - Close co-ordination of monetary, fiscal and industrial policies
  - Implications for mandate and independence of central banks

Fourth Industrial Revolution

- Many waves of technical change over past two centuries (agriculture to industry to services) – The Washing Machine (technological foundation for feminism)

- Productivity gains were invested to create new innovations, jobs and industries. Been there before many times

- TFP, measure of technical change, has been stagnant in rich countries since 2005

- Rate of change of occupational structure (jobs created in growing industries and jobs lost in declining industries) has slowed since 1980. Not at rate of industrial revolution

- All jobs are being transformed, not necessarily threatened. Changing not necessarily disappearing. Health robots will not make nurses redundant. But the jobs of nurses will change.

Fourth Industrial Revolution

- Post-Industrial fantasies (Ha-Joon Chang)
  - Industrial decline vs differential productivity between sectors. Prices drop relative to services
  - Services poor engine of productivity and growth.
  - Services are generally not tradeable. If we skip industrial upgrading phase we will not earn income (exports) to purchase advanced technologies
  - Manufacturing is where major productivity gains are made. Increase productivity in other sectors, including cutting edge services (that export), which depend on manufacturing
- Must invest in skills upgrading (Lifelong learning)
- Provide floor below which no South African will fall – free education and health and comprehensive social security for working age population

South Africa economy (1987 - 1996)

	Bank Rate	Inflation	Real prime	GDP	GDP pc	Debt to GDP	Deficit to GDP	Deficit (Smith)
1987	9.5	16.2	(1.94)	2.1	(0.1)	30.1	4.4	
1988	14.5	12.8	4.85	4.2	2.0	31.6	5.0	
1989	18.0	14.7	4.90	2.4	0.2	31.3	3.5	
1990	18.0	14.3	5.56	(0.3)	(2.6)	31.4	1.4	Surplus
1991	17.0	15.3	3.48	(1.0)	(3.4)	31.8	1.9	Balance
1992	14.0	14.0	6.97	(2.1)	(4.6)	33.2	3.7	2.4
1993	12.0	9.7	5.25	1.2	(1.3)	38.1	7.3	4.9
1994	13.0	8.9	5.79	3.2	0.8	43.0	5.6	2.9
1995	15.0	8.7	8.53	3.1	1.0	48.3	4.6	
1996	17.0	7.3	11.3	4.3	2.4	49.5	5.1	

R50bn to PIC/GEPF

R14 billion Forex losses at SARB

South Africa economy (1994 - 2016)

	GDP	GDP pc	Comments
1994 - 2016	2.9	1.2	GDP pc R55 828 (2016) from R42 849 (1994) GDP pc 30% higher in 2016 than in 1994
1996 - 2003	2.6	0.9	Slash and burn fiscal policies (cuts of capital spending) Sky high interest rates 15% – 21.85% (May to Aug 1998) Unemployment (narrow) more than doubled to 4.6m (28%) from 2m. (17%) Unemployment (broad) more than doubled to 8.3m (42%) from 4m (29%)

South Africa economy (1994 - 2017)

	GDP	GDP pc	Comments
2004 - 2008	4.8	3.2	World equities and commodity boom Expansionary monetary and fiscal policies Interest rates dropped 650 basis points to 7% in June 2003 Consolidated government spend up 10% a year for 4 years Investment to 23.5% in 2008 from 16% in 2003 Jobs up 1.9m to 13.6m in Sept 2007 from 11.7m in Sept 2001. Unemployment rate fell to 26.2% fro, 21%
2009 – 2017	1.6	0.3	Rate increases before and after GFC R70bn budget shortfall in 2010. Deficit went up to 4.5% 700 basis point cut in interest rates (Dec 2008 – July 2012) Mild recovery (2.8% growth between 2010 and 2013) Tighter monetary and fiscal policies after 2014 (1.3% growth 2014 – 2017). GDP pc lower in 2017 than 2014

Developing Regions GDP Growth (2009 – 2017)

SA underperformed all developing regions in world by large margin. Low growth is not due to global factors. Now a decade since the global crisis. Cant be used as excuse for SA low growth

Region	2009	2010	2011	2012	2013	2014	2015	2016	2017	Ave
World	(-0.1)	5.4	4.2	3.5	3.4	3.5	3.4	3.1	3.7	3.3
Emerging Market & Dev. Economies (153)	2.9	7.4	6.3	5.4	5.1	4.7	4.2	4.1	4.7	5.0
Emerging & Dev. Asia (30)	7.5	9.6	7.9	7.0	6.9	6.8	6.7	6.4	6.5	7.3
Sub-Saharan Africa (45)	3.9	7.0	5.0	4.3	5.3	5.1	3.4	1.4	2.7	4.2
MENA, Afghanistan, Pakistan (22)	1.4	4.8	4.3	5.4	2.3	3.8	2.7	3.9	2.5	3.5
Emerging & Developing Europe (12)	(3.0)	4.6	6.5	2.4	4.9	3.9	4.7	3.2	5.2	4.0
Latin America & the Caribbean (22)	(1.8)	6.1	4.7	3.0	2.9	1.2	0.1	(1.0)	1.1	1.8
South Africa	(1.5)	3.0	3.3	2.2	2.5	1.8	1.3	0.6	1.3	1.6
South Africa (per capita)	(2.7)	1.9	2.1	1.0	1.2	0.4	0.0	(1.1)	(0.3)	0.3

Eden GDP Growth (2009 – 2017)

Municipality	Contribution to GDPR	2004 - 2015	2004 - 2008	2009 - 2015
George	40.8	4.2	7.1	2.9
Mossel Bay	17.2	3.0	4.9	2.4
Knysna	11.2	2.6	4.3	2.0
Oudtshoorn	11.8	3.8	6.4	2.8
Bitou	7.6	3.4	5.8	2.4
Hessequa	8.0	3.1	5.6	2.1
Kannaland	2.3	2.6	4.6	1.9
Eden	100.0	3.5	6.0	2.6
Western Cape		3.3	5.5	2.5

Impact of Global Financial Crisis

- Largely rich country affair (-3.5% GDP in 2009)
- No developing country had a banking crisis
- Developing countries had expansionary monetary and fiscal policies to counter lack of demand from rich countries
- Therefore in 2009
    - SA GDP down 1.5% and one million jobs lost
    - All developing countries (up 2.4%)
    - East and South Asia (up 5.1%)
    - Africa (up 2.3%).
    - More than 40 African countries grew; Ethiopia (9.9%), Nigeria (7.0%) Mozambique (6.4%)
    - China (9%) India (6.7%) Indonesia (4.5%) Egypt (4.7%)

Impact of Global Financial Crisis

- SARB increased rates by 250 basis points before GFC in June 2007
- SARB increased rates by 250 basis points AFTER the start of GFC (unprecedented in any country in the world)
- SA downturn preceded GFC by about nine quarters
- GDP (-1.5%) and one million jobs lost
- Increased rates by 200 basis points since Jan 2014 despite massive increase in unemployed people
- SARB implicated in causing the last three recessions and current downturn
- **Low growth of 1.6% (0.3% pc) for nine years (2009 – 2016)**

SOUTH AFRICA ECONOMY CRISIS

- **Crisis of collapsing GDP growth and rising unemployment**
- Unemployment increased by 3.3m since Dec 2008
- 9.2m unemployed – 41% for black Africans
- **Despite fear mongering by rating agencies, SA does not have a debt problem it has a GDP growth problem.**
- Rating agencies don’t say we have debt problem. They saw we will have one if we don’t increase GDP growth rate
- 50% debt ratio one of lowest in OECD
- South Africa is not broke
- **Structural reforms. No link ever established with GDP growth in short or medium term. Look at Greece**

SOUTH AFRICA ECONOMY CRISIS

"You will never balance the Budget through measures which reduce the national income. The Chancellor would simply be chasing his own tail – or cloven hoof!

The only chance of balancing the Budget in the long run is to bring things back to normal, and so avoid the enormous Budget charges arising out of unemployment…

Even if you take the Budget as your test, the criterion of whether the economy would be useful or not is the state of employment…

I do not believe that measures which truly enrich the country will injure the public credit…It is the burden of unemployment and the decline in the national income which are upsetting the Budget. **Look after the unemployment, and the Budget will look after itself."**

John Maynard Keynes, radio interview in 1933

SOUTH AFRICA ECONOMY CRISIS – THE BUDGET

- National budget does not work like household budget. Expenditure is income. If you cut expenditure you reduce income.

- Ann Pettifor has done analysis of UK budgets for past century. Public debt has declined when government spending has increased. Post WW2 (250% of GDP) massive spending (NHIetc) resulted in sharp drop in debt ratio

- Austerity (tax increases and expenditure cuts) is a self-defeating process. Everybody agrees it results in lower GDP Growth. This results higher debt-GDP ratio.

- IMF has said the negative impacts of austerity are worse than they previously estimated.

- Argument is that confidence-boosting measures will counter the impact of austerity. But Krugman says the idea that a "confidence fairy" can counter impact of austerity is zombie idea

- The Budget has R62bn of austerity (R36bn tax increases and R26bn expenditure cuts) which is 1.3% of GDP. Will reduce GDP growth and increase unemployment to more than 10m

Trevor Manuel on Public Investment Corporation

It is important to note that the PIC makes investments predominantly on behalf of the Government Employees Pension Fund (GEPF).

Given that the GEPF is a defined benefit fund, it would be inappropriate to consider any returns accruing from such investments to be benefiting the beneficiaries. This is simply because the pension benefits are predetermined.

Today’s Trustee, March 2005

PIC ASSETS

	Value of Assets (R million)
Shares	959 490
Government debt	421 886
Public enterprises debt	189 231
Cash	113 127
Total	1 925 900
Net Loan Debt	2 006 000
Net Loan debt (% of GDP)	45.5
Net loan Debt (% of GDP after PIC debt write off)	35.9%

EMERGENCY SHORT-TERM INTERVENTIONS

- **Monetary and Fiscal stimulus**

- Escape clause for SARB (while we work on changing its mandate)

- Reserve Bank must cut interest rates

- Once-off restructuring of our national balance sheet

- Fiscal stimulus of 3% of GDP – R500bn over three years

    - Should only be spent on infrastructure. In construction, there is a fiscal multiplier of 1.9 times according to treasury. Each R1 spend increases GDP by 1.9 time. City of Joburg alone has R170bn infrastructure backlog but capital spending only a fraction of that

    - SARB People's QE (purchase government debt)

    - Liquidate PIC assets + purchases of government debt. Level of funding in PIC is obscene (majority of OECD countries have unfunded or partially funded public sector pension schemes)

    - Increase government debt (private sector social compact)

    - Redirect consumption spending