



'RECESSION, RECOVERY AND REFORM IN THE SA ECONOMY'

NWU SCHOOL OF BUSINESS AND GOVERNANCE

WINTER STUDY SCHOOL

PRESTIGE DAY SESSION

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THE WORLD ECONOMY AND SA.....(1)

- * *SA is a small open economy*
- * economic interdependence with global economy
- * international business cycle important to SA
- * *investment and trade stake to underpin growth and employment*
- * SA's global competitiveness

THE WORLD ECONOMY AND SA.....(2)

- * *slow recovery from 'Great Recession' of 2008*
- * *outlook for global economic and business now best since 2008 – soon back at long-term levels*
- * *world economic growth expected to be about 3.5% in 2017 and slightly higher in 2018*
- * *upside expectations in several world markets in which SA has an economic stake*

THE WORLD ECONOMY AND SA.....(3)

CAUTIONARY NOTES:

- * *rising global interest rates and possible implications for SA capital flows*
- * global bonds now see hawkish rhetoric from key Central Banks – to roll back easy credit policies
- * expectations that rising developed market yields unlikely to be as negative as 2013 ‘taper tantrum’ selloff
- * *emerging markets generally seen as in better shape now*
- * *Turkey and South Africa most vulnerable, says latest Nomura research*
- * if US economic actions lead to ‘beggar-my-neighbour’ protectionist policies

THE WORLD ECONOMY AND SA.....(4)

CAUTIONARY NOTES:

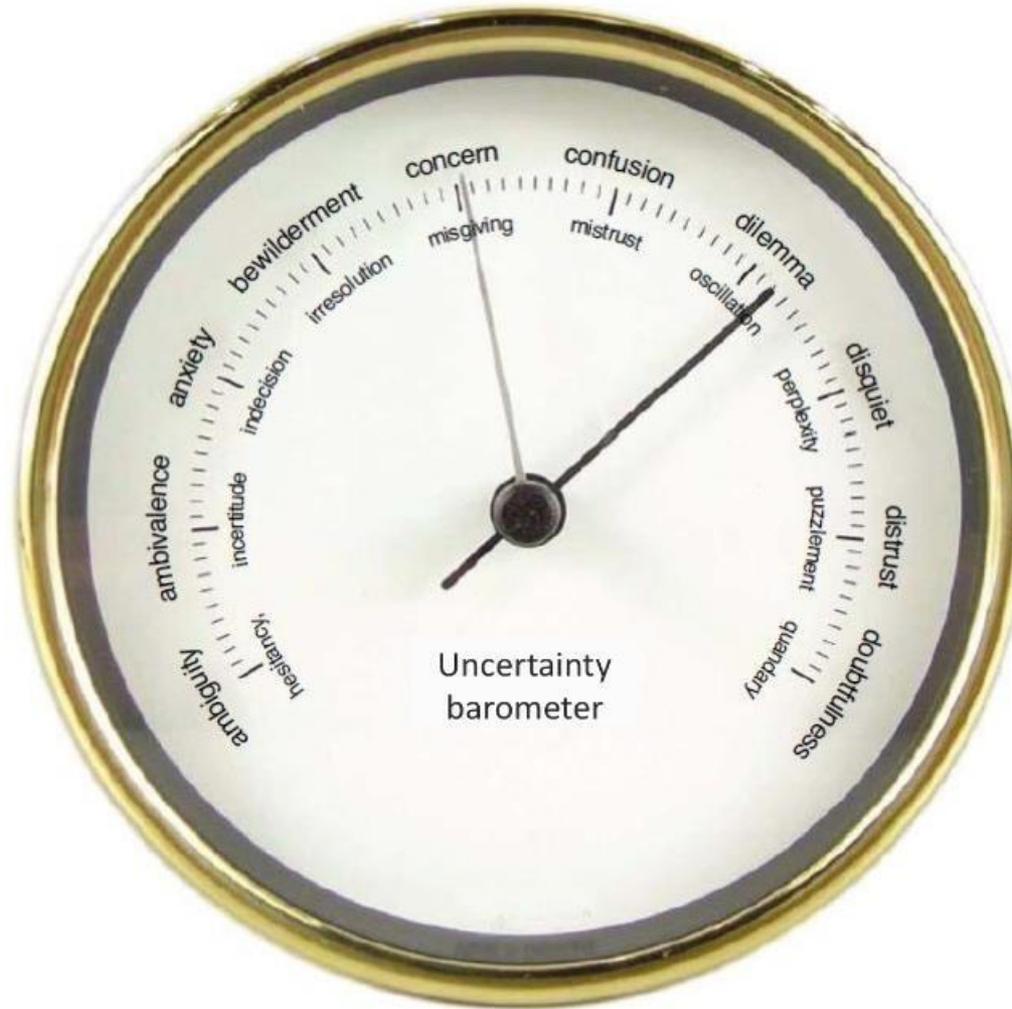
- * implications of *Brexit for SA economy*
- * SA has large trade and investment stake in UK and EU
- * as long as UK-EU negotiations continue, present SA-UK-EU economic arrangements stay intact
- * *prolonged negotiations in SA's economic interest*
- * potentially damaging for SA if U.K. growth declines over the next couple of years and British market shrinks
- * *implications of persistently low oil prices for oil-exporting emerging markets like Nigeria, Angola and Gulf states*

THE WORLD ECONOMY AND SA.....(5)

- * seen as a whole the *global economic outlook remains supportive of the SA economy*
- * we must look mainly to *domestic* factors to explain the state of the SA economy and cannot hide behind global factors – *‘the buck stops here’*
- * SA must score less ‘own goals’ creating economic and political headwinds
- * SARB Governor said last month:
‘Yet, now the global economy looks as healthy as it has been in years – but the SA economy is still struggling. So why are we doing so badly? And what can be done about it?’

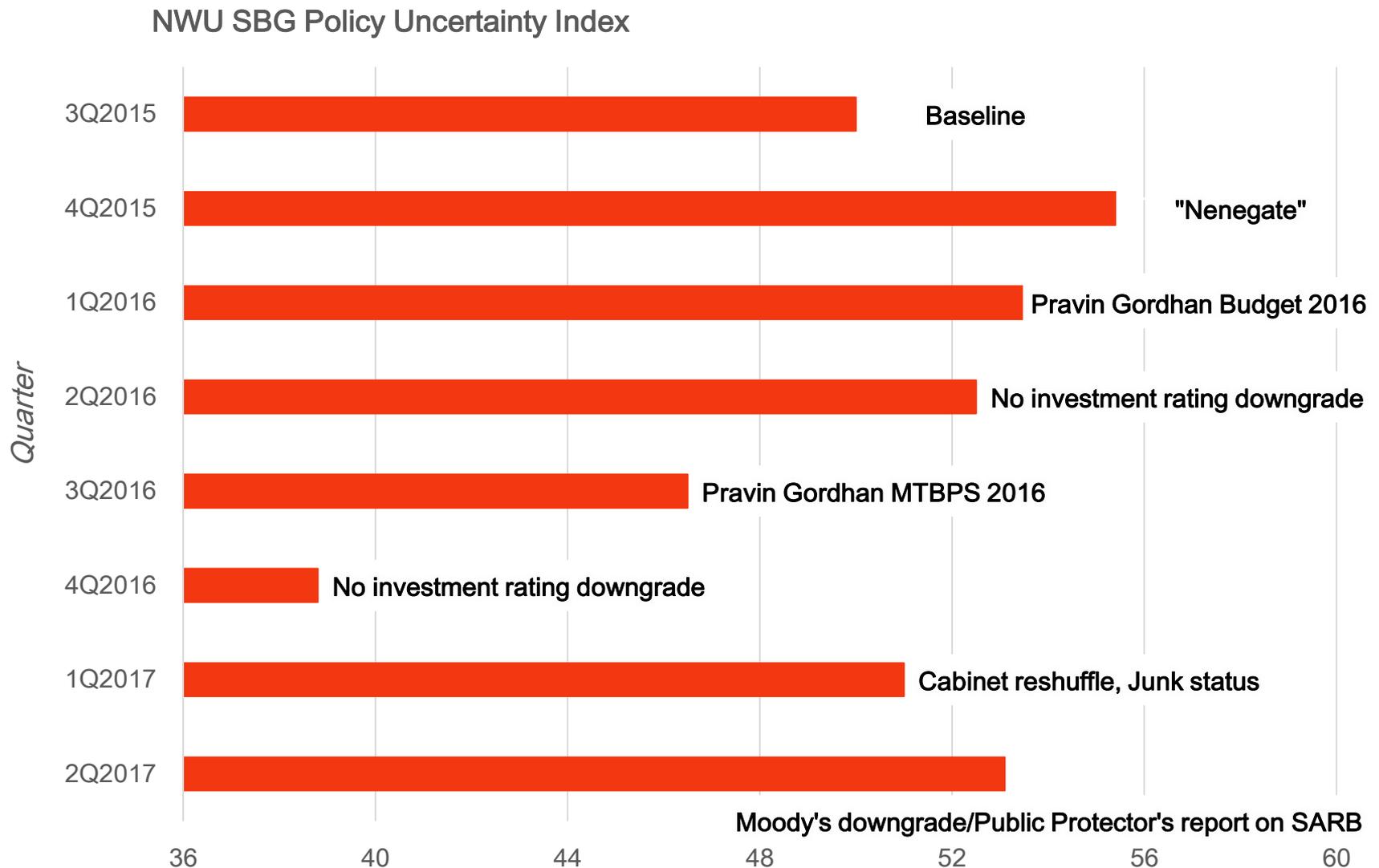
ADVENT OF RECESSION IN SA.....(1)

- * *SA business cycle has been in a downswing for about 44 months, making it the second longest in SA history, surpassed only by the one over the period 1989 - 1993*
- * *'Technical recession' is two successive quarters of negative growth – which SA experienced in 4Q2016 (-0.3%) and 1Q2017 (-0.7%)*
- * *main culprits over that period were poor exports, low government spending, higher unemployment, weak consumer spending, stagnating private sector investment and a volatile exchange rate*
- * *culminating in low levels of business and consumer confidence*
- * *corrosive impact of heightened policy uncertainty on investment and consumer spending*
- * *can we measure it?*



NORTH WEST UNIVERSITY SBG POLICY UNCERTAINTY INDEX (PUI)

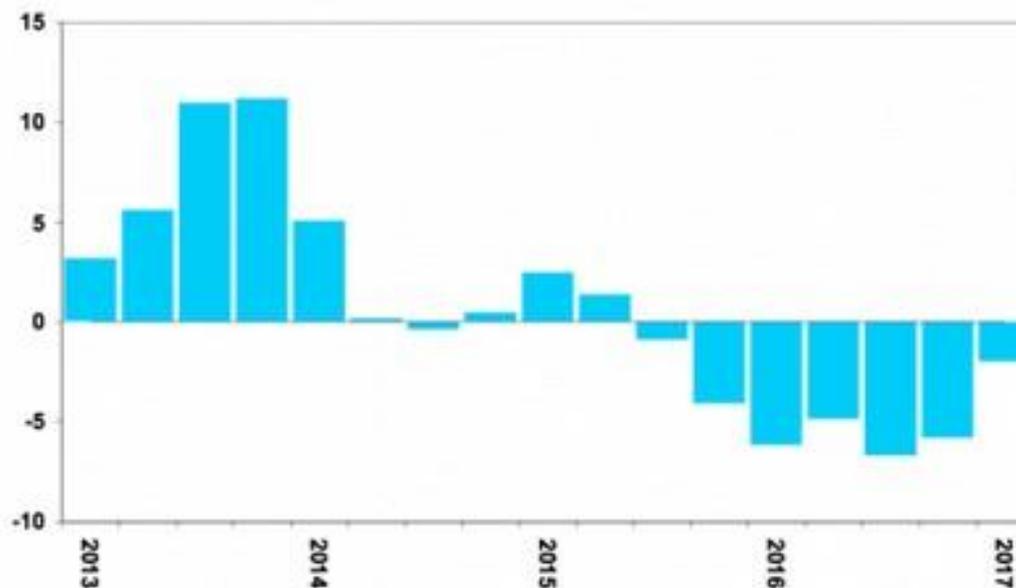
ADVENT OF RECESSION IN SA.....(2)



ON INVESTMENT TRENDS

Growth in fixed investment spending by private sector

%q/q, 4-quarter moving average annualised



Source: STANLIB

* policy uncertainty is like a 'tax' on investment

ADVENT OF RECESSION IN SA.....(3)

HEIGHTENED POLITICAL AND POLICY UNCERTAINTY AS A RESULT OF:

- * *economic spin-off from general political polarisation and factionalism within the ANC leadership contest*
- * Cabinet reshuffle in March *replacing the Minister of finance*
- * downgrade to *junk status* by credit rating agencies
- * *investor uncertainty* generated by *mining charter*
- * uncertainty around land reform

ADVENT OF RECESSION IN SA.....(5)

HEIGHTENED POLITICAL AND POLICY UNCERTAINTY AS A RESULT OF:

- * *triple attack on Reserve Bank* to revise mandate, review inflation targeting and by 'nationalising' it
- * *harsh rhetoric* about 'white monopoly capital' and 'radical economic transformation'
- * economic implications of '*state capture*' / *institutionalized corruption*
- * *financing and governance of state-owned enterprises* e.g. Eskom SAA, Prasa
- * generally too many inconsistencies and conflicts in policy decision-making generating greater uncertainty / *inability to 'stay on message'*
- * Hence *cumulative development* of a significant 'trust deficit' in SA

RECOVERY IN SA ECONOMY.....(1)

* economic recovery will depend on:

(a) resilience of business cycle

(b) policies and politics

(c) business strategies

* SA economy entered 2Q2017 off low base – mixed trends so far

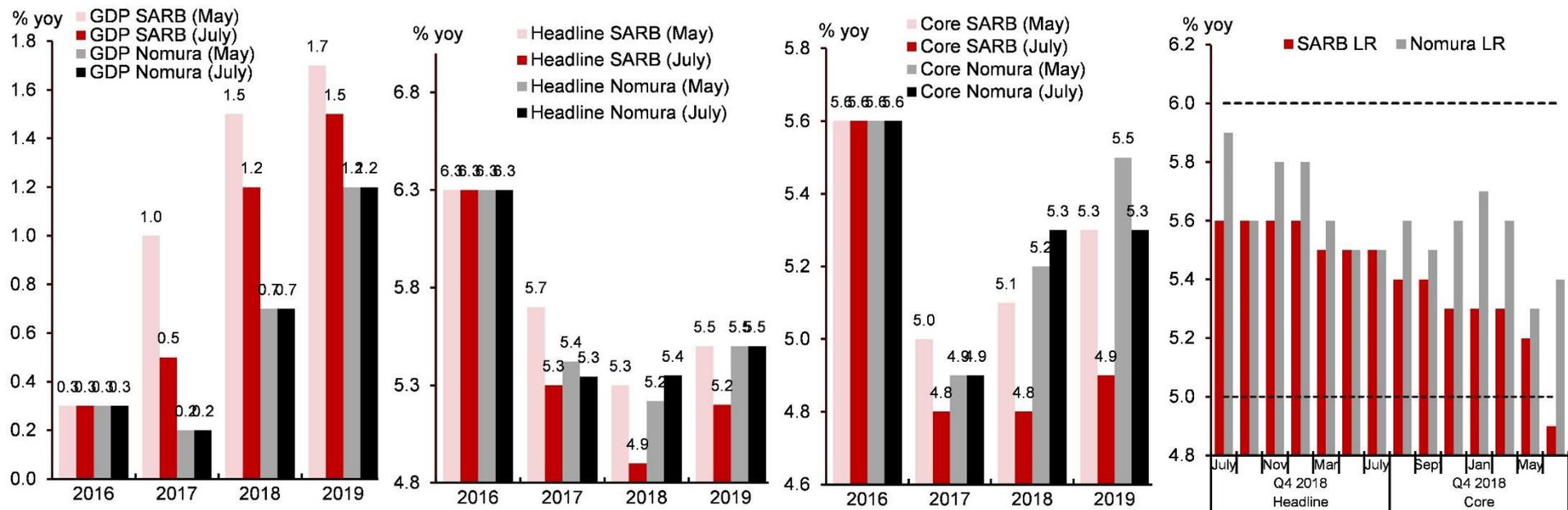
* *good news is positive production figures for agriculture and mining*

* question is whether bad news will negate good news of record maize crop and expanding world economy

* SA will be lucky to reach an *economic growth rate of about 0.5% in 2017 and about 1.2% next year*

* confirmed by latest SARB/MPC statement July 20

COMPARATIVE GROSS DOMESTIC PRODUCT (GDP) AND INFLATION FORECASTS BY SARB AND NOMURA*



- Source: SARB/ Nomura

*a leading emerging market research unit London-based

POLICIES AND POLITICS.....(1)

AMELIORATING FACTORS:

1. FINANCE MINISTER GIGABA'S 14-POINT PLAN (13 JUNE 2017):

(a) *implementation plan* of previous policies / projects, *no new policies*

(b) *deadlines* set for cabinet ministers / projects – *more accountability*

(c) *reaffirmation* of partial privatisation of state-owned enterprises

(d) plan may help *to stabilise economy, not restructure it*

(e) much will instead depend on *mini-budget (MTBPS) in October*

(f) *but* no fundamental structural reforms evident

2. Strong JSE performance driven mainly by global factors

POLICIES AND POLITICS.....(2)

AMELIORATING FACTORS (continued):

- * interest rates being reduced
- * government adamant that constitution will not be amended to change SARB mandate – as well as court review
- * *suspension of implementation of mining charter* pending outcome of court ruling is significant
- * *frequent references to framework of National Development Plan (NDP)*
- * prospect of new CEO and chairman at SAA a positive development
- * language around ‘white monopoly capitalism’ and ‘radical economic transformation’ modified

BUSINESS STRATEGIES.....(1)

- * policy uncertainty is the 'new normal' for the foreseeable future, at least until the ANC elective conference in December
- * *uncertainty does not automatically mean negativity* – business strategies can be adapted and accommodated to the new situation – always scope to identify *new opportunities* and *remedial action* (next presentation will deal with business responses)
- * Business Unity South Africa (BUSA) releasing far-reaching long term commitments on how business can actively promote economic transformation and reform
- * Business Leadership South Africa (BLSA) forges pact with COSATU to deal with economic stability and state capture

BUSINESS STRATEGIES.....(2)

- * business is a *change agent* and also has the power *to criticise and resist*
- * together with other stakeholders, *business has agency and space to take action* within its sphere of influence to make a difference
- * must be rooted in understanding and acceptance that *only a collaborative effort by government, business and labour* can eventually turn the situation around
- * a truly collaborative effort remains highly necessary to reach better outcomes, for which trust and confidence need to be rebuilt
- * it is within the domain of government to rebuild confidence, trust and certainty damaged by various recent actions

'THE SA ECONOMY: JUNK STATUS AND RECESSION FOR EVER AND EVER?

IT DEPENDS ON:

- * the *basic resilience of the SA economy* even in the face of strong economic and political headwinds
- * the *intrinsic strength of SA institutions* – especially the judiciary and civil society - providing the necessary checks and balances in our society and for regaining its moral compass
- * the *quality of leadership*, especially at political and economic levels
- * SA making the *right choices and implementing* them
- * on the *degree of optimism or pessimism* apparent in seeking solutions to SA's crucial challenges
- * optimism, like pessimism, is contagious and can have a meaningful impact on the political economy of a country

'In this world, the optimists have it, not because they are always right but because they are positive. Even when wrong, they are positive. And that is the way of achievement, correction, improvement, and success. Educated, eyes-open optimism pays. Pessimism can only offer the consolation of being right'

- Prof David Landes, 'The Wealth and Poverty of Nations (1993)

'South Africans should urgently escape the paralyzing grip of depression and pessimism lest it becomes a self-fulfilling prophecy.....South Africa can still become a winning nation, despite the politicians'

- Max du Preez, 18 July 2017



CONCLUDING REMARKS

