

SA FM INTERVIEW

SABC Radio's SAFM interviewed National Treasury Director-General Lungisa Fuzile on AM Live on Friday 31 May 2013. Please find below transcript. The interview was conducted by Xolani Gwala.

SAFM: I just mentioned the issue of the rand against the dollar and other major currencies. Let me get your thoughts on that. Are you worried about the speed with which the rand has depreciated?

Fuzile: Very important Xolani. When the depreciation is too fast and there is a lot of volatility we do get concerned because people who are supposed to be doing business with South Africa - making investments and buying our bonds - do tend to either hold back or sometimes take precautionary decisions. It is for that reason therefore, that the President tried to speak to the nation, in particular people involved in the mining sector which is the area where we think the source of negativity is concentrated.

SAFM: How do you think foreigners are interpreting our economy?

Fuzile: It is not just the interpretation of our economy. It is the interplay between what happens in the global economy in parts of the world that the people who invest in South Africa also invest and do business in. For example, in recent times there has been a lot of positivity about the US economy: growth firming up and property or real estate prices appearing to be strengthening. So, people are anticipating that there will be a withdrawal of the quantitative easing measures that the US had invoked at the height of the global financial crisis, on the one hand. On the other hand countries that buy our commodities have been experiencing a bit of a slowdown including those in the East that have been the main source of the demand for these commodities, so prices softened. At the same time, what foreigners then saw was the situation where there was some instability: there were rising costs be it because of energy prices and or wages in the mining sector. That combination then has made people to have doubts about the sustainability of our economy. Lastly, because of the developments in mining - particularly that mining is still a very big contributor to export earnings, to us being able to get income in foreign currencies, in dollars for example to be able to pay for our imports - that has manifested itself in a slight change in our fundamentals, if am not reducing really when am saying slight change because our current account has widened and that has put pressure then on the currency.

SAFM: I was going to come to the deterioration of the current account and whether that has an important part to play?

Fuzile: It has got an important part to play. There are a number of factors that drive it. Imports are up. The very important developments relating to imports that gets missed when people are looking at aggregates is that some of what SA is importing goes to our exports, our capacity to produce more goods for local and export market. Most people wouldn't know that the BMW 3 Series which we produce even for US, one of the largest markets, we import as much as 52 per cent of it from elsewhere before we assemble and export it. So when you see a BMW 3 Series in the US, not 100 per cent of it has been produced in SA. So, when the capacity of our economy increases or has to be increased we tend to import more.

We are importing equipment, part of it for power stations which will resolve our energy supply problems. But on the export side there has been a decrease both in terms of volumes and as a result of a drop in commodity prices. Now, we can't control prices of commodities but of course, if we adjust our quantities whether by ourselves or because it does not make sense to produce more, then the prices of commodities will adjust. But one thing that South Africans have control over is that we can make sure that we always produce - gold, platinum palladium etc - so that that rest of the world, to the extent that they can afford these things, we can export them.

SAFM: Talking about production: what needs to happen in the mining sector?

Fuzile: The first thing is that there has to be absolute stability in mining, informed by the appreciation that it is a very very important sector of our economy in a number of ways: First, it creates employment; second, it produces what we export and third you do need stability to infuse confidence in our economy and in the ability of South Africans to manage their affairs. Part of what has to happen is that the leadership of mines and leadership of unions at the mines, and workers by the way - because some of the strikes have not been led by unions - they've got to appreciate this because at a time like this, when our economy is growing very slowly, when it's not creating enough jobs, we don't look like people who are very hungry for success when at the first inkling of a disagreement one party decides 'I'm not going to talk to you , I'm walking away', when the world know us for our ability to resolve the most complex of situations through negotiations. So I would encourage, if I were to advise, that all parties need to play a very constructive role, play that role within the framework of the law. Our Industrial Relations framework is very solid, has been tested over decades, it has served us very well people must play by it.

SAFM: That's an important one, "play within the framework of the Law" because after what happened in Marikana and afterwards , people started saying: "what's the use of the law if people are able to negotiate and do things outside of it"?

Fuzile: You are right Xolani, I can't dispute that at all. In fact both sides made mistakes there and it wouldn't help to dwell on those. People that I have interacted with have learned from those and the question is if they have learned enough to

make sure that they don't repeat the mistakes they made. It is for that reason that government, at highest level of (Deputy President Kgalema Motlanthe), has been talking to all sides to say to them: "As you approach this round of negotiations, make sure that talk is not as inflammatory as before and does not have the kind of negativity that the last one had so that the rest of the world can see we are serious about managing this particular sector which is so important for our exports and sustaining jobs".

SAFM: Does what's happening now change the growth outlook?

Fuzile: It definitely has potential to do so. Very importantly, events such as these impact on confidence. At a time like this, when investors are so sensitive – they've suffered many losses in recent times – they may turn to run. You've got to make sure that you keep doing things the right way so you can maintain that confidence. But at the same time, if the disruption is sustained it will impact on growth but if we are able to avert it – and I think we will – we stand a good chance that if it impacts on growth at all it will be negligible.