



## **2016 Inclusive Growth Debate**

### **Address in Parliament**

**Pravin J Gordhan**

**Minister of Finance**

**26 May 2016**

Honourable Members,

Today we debate a matter of national interest.

We have agreed on a vision for faster growth, employment creation and the elimination of poverty.

We have a National Development Plan, with implementation programmes set out in considerable detail.

President Zuma has rightly identified the priorities for immediate action in our nine-point plan.

Our challenge is that confidence is weak. Investment is depressed. Unemployment is rising. Sluggish growth. Volatility in financial markets. A disconnect from the real economy.

This is both caused and aggravated by a volatile and uncertain global environment. Depressed trade, limited trade finance, lower global FDI, growing inequality contrast with huge ambitions for lifting the bottom 40% out of poverty, implementing the SDGs and searching for a more inclusive growth path.

The cycle plays out through fear and risk-aversion in financial markets. And wide spread uncertainty.

We have no choice but to seize the nettle; use our resilience; and dig deep to find the reservoirs of goodwill and common national interest to map a common road forward. Step by step building unity in action among government, business, labour. Using our total resources to build sufficient trust and using our common concern about a further decline in our economic fortunes to defend our economy and build hope.

This is what we have been trying to do over the past few months building on previous initiatives - but with a greater sense of collective urgency. On 9 February 2016, the President mandated Mr Jabu Mabuza and the Minister of Finance to continue to work with business and labour and find areas of collective action.

There are many skeptics and doomsayers. But we can't let them determine our collective fate. Regenerating confidence through concrete actions by all, however small at this stage, to avoid an immediate ratings downgrade and establishing common projects with concrete outcomes which benefit all sections of our people, is the key to future success!

We have begun the conversation we need, to break this cycle of disappointment. In the past few months, the growth challenge and our transformation agenda have brought government, business and labour leaders together.

We have begun to form a new narrative, of support for new enterprises, of revitalising agriculture, of investing in our cities, of private sector participation in our state-owned companies.

But the conversations are just a beginning. There is hard work still to come. The work and the struggle to get things done will require strong leadership and a collaborative spirit.

Honourable Speaker, the reality is that the economy is not generating enough jobs. Without employment creation, it is very hard to reduce poverty. In the National Development Plan we set ourselves an aspirational growth target of 5.4 per cent a year. We set ourselves an ambitious target because we deeply appreciate the primacy of growth in helping us expand work opportunities for the millions of our fellow citizens who are left behind because they can't find work.

For growth to be inclusive, it must create jobs. It must generate hundreds of thousands small and medium enterprises. This has very practical implications. But our growth also has to be sustainable, taking account of, for example, climate change.

Behind the noise and clutter of financial commentary and concern about ratings downgrades, Honourable Speaker, there are very basic economic trends and vulnerabilities at stake.

Investment, employment creation, a sustainable budget deficit, building plans completed, industrial productivity and competitiveness are the measures of our progress, and the indicators that require urgent attention and are being dealt with in the IMC on Investment chaired by the President.

Our responses cannot be business as usual.

Since the beginning of the year, as tasked by the President, government, business and labour have been working together intensively to help strengthen short term confidence and reinforce long term growth. We have been focusing on three key areas:

- 1) Restoring confidence and boosting investment by local and international investors.
- 2) Unblocking obstacles to faster employment growth in key sectors.
- 3) Identifying fiscal and regulatory reforms and strengthening state-owned companies.

Results of this partnership already include the following:

So we have adopted a clear fiscal consolidation path, to avoid the burden of debt that might cripple investment flows and government spending capacity.

Together with business and labour, the government, after the budget in February, embarked on a foreign investor road show to present a united message to the world that South Africa is embarking on necessary economic reforms and is open for business. The team met the rating agencies as part of the road shows. Moody's subsequently visited the country in March for a rating review. We had further discussions with the rating agencies in April on the side-lines of the annual IMF spring meetings in Washington.

Since then Moody's decided to leave our rating level unchanged. In their statement they indicated that:

- South Africa is likely approaching a turning point after several years of falling growth, as supply side shocks recede
- The 2016/17 budget and medium term fiscal plan will likely stabilise and eventually reduce the general government debt metrics
- The recent political developments, while disruptive, testify to the underlying strengths of South Africa's institutions

Two other rating agencies, Standard and Poors and Fitch engaged us last week with S&P also visiting businesses and other stakeholders. We will receive feedback from the two agencies on the 3<sup>rd</sup> and 8<sup>th</sup> of June respectively. Beyond the June date, the next round of reviews will be in December. We will have to work harder to demonstrate even more concrete outcomes by the time of the December reviews.

We can also report that:

- A Small and Medium Enterprise Fund is being established, with over R1 billion already committed and complemented by mentoring by seasoned business leaders for start-ups.
- The task team has looked at various sectors that carry potential for faster economic growth and employment. Tourism and agriculture have been

identified as sectors with potential quick wins. Recommendations have been compiled as are been canvassed with various departments.

- With regards to infrastructure and state-owned companies, options for co-investment are being explored, to leverage the strengths of the private sector both in terms of their expertise and balance sheets. This supports the work of the inter-ministerial committee (IMC) on investment led by the Deputy President. Work is being pursued to find ways to reduce youth unemployment, and boost skills development. A new stream of work on youth unemployment has been created following a progress report to the President on the 9<sup>th</sup> of May. Several Jobs Fund projects have piloted approaches to work-seeker support and enterprise development that can now be more widely implemented.

Honourable members, this work cannot stand on its own. These efforts by the private sector leverage and complement ongoing reforms package as part of the National Development Plan and the 9 point plan implementation program whereby;

- The *Deputy President* is leading the work to reform State Owned Companies (SOCs). The IMC, under his leadership, is progressing development of a framework for private sector participation in SOCs and principles of disposal of non-strategic assets. An RFP for the appointment of service provider to assist in consolidating airline businesses has already been issued.
- Under the leadership of the *Minister of Environmental Affairs*, great initiatives are in progress in growing the oceans economy and expanding employment associated with environmental sustainability.
- The *Ministry of Trade and Industry* is broadening its efforts to support and grow the local manufacturing base. Recent of announcement of expansions by Toyota build on investments by BMW, Mercedes Benz, Ford and other manufacturers.
- The *Ministry of Science and Technology* is leading in development of fuel cells, bio-economy, fluoro-chemicals and titanium powder.

- The *Ministry of Energy* is not only resolving, what was an energy crisis, but has made South Africa a global leader in renewable energy in partnership with the private sector. The department will soon unveil the first coal Independent Power Producers (IPPs) and further pursue IPPs for gas.
- The *Ministry of Agriculture* has already begun the development and construction of agriparks.
- In pursuit of workplace stability and equality, the *Deputy President's* leadership at Nedlac is progressing discussions for introduction of secret ballots, codes of good practice and the national minimum wage.

These achievements are positive milestones. We have learnt that through collective work and effort in a moment of challenge and crisis we can once again as South Africans produce results.

We need to use the current momentum to resolve deeper issues in our society. Slow progress on transformation and growing inequality remains a big challenge.

Economic growth, inclusivity and transformation should go hand in hand.

Our economic transformation is about several things:

- Sustainable economic growth and creating decent work for all South Africans.
- Black economic advancement and overcoming the racial divisions of our society.
- Eliminating poverty, and creating dignity for all – which means finding the way forward in implementing comprehensive social security and universal health coverage.
- Broadening participation and democratising ownership and control of the economy.

Transformation is happening, but progress is uneven. A report published by the African Development Bank in 2014, found that South Africa's black middle class has grown rapidly, and similar findings have been published by academic and marketing analysts.

The rising middle class helps to lift skills levels of the youth and increase the number of businesses who will employ workers. The youth unemployment challenge remains immense.

These are our most pressing challenges. We should ask, Honourable Speaker:

- What can I do more as business, outside of my profit motive, to effect economic transformation?
- What can I do as labour beyond the interest of my current members?
- What can I do as government? Where am I an obstacle?
- What is my role as civil society? How do I best engage other role players?
- And let us not forget the contributions politicians can make in creating a stable and enabling environment for growth and confidence. Let us not confuse disorder for radicalism.

Slow progress on transformation of the economy and our people creates a breeding ground for combative, winner takes all narratives which could in return undermine constructive policy discourse. Without action – joblessness and inequality will set in motion a counter-reaction – the politics of desperation that could put in place perpetual fault lines in society and set our quest for development even further back.

Honourable Members, South Africans do believe that we are at the beginning of a social compact. Our work over the last five months has shown what is possible under the rubric of the National Development Plan; what is possible to develop a common purpose to promote our national interest.

That common vision is that we want a South Africa where social justice is a visible reality, a living concept and driving force for those who want a better society.

As I conclude Honourable Speaker, the goal of inclusive growth is critical in this platform for collective action, because it is the glue that provides a common purpose and directs all to work together.

If we are to avert the credit downgrades that would affect all South Africans, would raise the cost of living and the cost of doing business for everyone – we have to

unite in embarking on a different trajectory. We have to make the right policy choices and take tough action.

- By working together, we can pool our resources – both capital and skills. South Africa has the richest pool of talent and expertise on the continent – yet we are held back by skills constraints. By working together, we are better able to take concerted action on key priorities to deliver results – and boost confidence and trust in one another.
- By working together, we are able to present a united front to those who believe that South Africa is losing its way.

These are just some of the reasons that collaboration between social partners is critical.

As a nation we are resilient! We have overcome tougher challenges before. We have triumphed against adversity. We are going to succeed again this time round.

This is especially critical in our country, since the structure of South Africa's economy remains deeply rooted in our divided past. The gap between rich and poor is very wide. South Africa's youth who are unemployed have very low prospects of finding work or learning productive skills. And unemployment coincides with ill-health, limited family support, poor education and restricted social mobility.

An inclusive society is one which prospers together. This occurs as we build trust, working with one another. Social change does not occur over night – but we need to trust in the motives of and understand one another. South Africa has a long history of dialogue to solve our problems. Now we need to move to action to transform that dialogue into concrete outcomes.

We need to make social justice a reality for all South Africans.

Thank you.