MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Speech by Minister of Finance
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Gauteng Economic Indaba
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Good morning everyone. Sorry for giving you a few minutes to gossip amongst yourselves. What was this fellow doing with the President? We had a Cabinet meeting this morning so I thought I should attend the Cabinet meeting first and then join you then go back to the Cabinet meeting.

Thank you very much for the invitation to be a part of the panel this morning. Let me also congratulate Gauteng for its leadership in organising this conference to discuss their economic plan for the city and the province and starting to conceptualize what it means to do collaborative economic planning.

This dialogue is of significance this time because there is a lot of pessimism both globally and within the South African economy about whether we are going to get the kind of growth that we require to create jobs, reduce inequality and poverty but importantly to reignite economic activity in our own situation. The themes you are focusing on pertaining to transformation, modernisation and re-industrialisation are important national themes.

One hopes that one of the outcomes over the next few days will reinforce the kind of interaction that Government has been having at a national level with business and labour, because this is the time where none of us can do it alone, it will take a collective to realise material growth. None of us is going to be able to provide the answers or resources to get to 3 per cent growth, let alone the 5 per cent that the National Development Plan actually requires.

This is a time to start focussing on what needs to be done at a micro level because invariably what happens or does not happen at a micro level will determine our economic path. What a provincial authority does or does not do; what Local Government does or does not do determines whether investors are comfortable, whether businesses are growing and whether the right infrastructure is built. All these determine whether the right eco-system, a result of government's initiatives has been created.

It has become clear – interactions with rating agencies and the private sector has - that people who have an interest in South Africa don't want any more plans, promises they want action and implementation. They want to see milestones indicating that we are actually trying to achieve the objectives that we have set. This is a time where courage is needed to convert ideas to implementation and learn the harsh and sometimes exciting lessons of what implementation has to teach us.

The task is to demonstrate to citizens that as Government, business and labour we have their interest at heart and that the benefits of what we do - apart from putting money into public coffers or private pockets - accrue to citizens.

Last week a few of us attended an Organization for Economic Cooperation and Development (OECD) Conference in Paris. It's interesting that what is called the rich club is talking about very similar concerns to the ones that we have. They say one of the challenges is that productivity gains are not being widely shared. So as business people, we want workers and our enterprises to be extremely productive but at the end of the day the cream is taken away by the few at the top.

The Guardian newspaper had an article which shows that global wealth amongst the rich has grown some 8 per cent or so to $168 trillion and with now most of the billionaires and millionaires coming from the East. My apologies to Gauteng, you thought you were producing them here. There are fascinating numbers that emerged from the OECD report and meetings; the slow, productivity growth and rise in inequality. It's no longer the so called lefties or progressives who are commenting on issues of inequality and the injustice that it causes. Today, it's becoming a world concern that inequality results in populist politics and results in social disruption in the end. So everybody is looking for what this inclusive model of growth is, which is one of the themes that underpin the work that you are doing in Gauteng.

STATE OF THE ECONOMY

Let me take you through some of the numbers very quickly and make a few general remarks. So what is the current state of the economy?

What we are saying is that we need to re-engineer our economy. Many of the discussions you are going to have are going to build on the strengths that we have, one of which being that we have strong institutions. Interestingly, agencies such as Moody's have confirmed this.
There is no doubt that as a young democracy, our institutions are indeed resilient and in particular our legal framework provides security not only to business but to other sectors of society as well. Similarly, we have well-developed capital markets

and this is an interesting asset when compared virtually to the whole of Africa and many other parts of the developing world.

The lesson here is one which many African countries are learning. Over the last three years or so, capital markets were very willing to lend to economies, particularly oil based and resource based economies because those countries were doing very well. Countries went out and borrowed in dollars and euros then the oil price crashed and the commodity cycle went down. Suddenly, currencies depreciated and these countries now find themselves in fiscal and other difficulties as well.

If you compare that to South Africa, for a long time we have made sure that not more than 10 percent of our annual borrowings are in foreign currency. So 90 per cent of our borrowing, which will be about R128 billion this year, is in rand. Therefore, the depreciation in the currency doesn't shock our system to the same extent that it shocks many other systems across the continent. That is the strength we have.

The share of GDP spending on infrastructure has been good up to now but we are in the early stages of developing a new package to ensure that the pipeline of infrastructure projects doesn't whittle down. I am sure that there is similar work happening in the Gauteng as well. There is a reasonably good environment for business. Again, South African business sometimes tends to be more pessimistic than they need to be. When you talk to foreigners who are interested in South Africa and see value in being based here, they recognise that notwithstanding challenges, there are positives. When we attend Africa-wide conferences there is no doubt that South Africa still has the best business infrastructure on this continent. The question is how we use it to our advantage.

PROMOTING GROWTH

The renewed effort that we are making in terms of promoting growth and economic reforms by working with business and labour over the last couple of months is also beginning to pay dividends. The two rating agencies so far Moody's and S&P have given a fair amount of credit to that process. Fitch will be making their announcement later today about whether we remain where we are in their books. So you can cross your fingers and hope that they come up with the right answers. We certainly think that we have done the right kind of work with labour and business to present a united front on your behalf and earn another 6 months of breathing space and have an opportunity to work at some of the issues we have identified.

On the other hand, the current global environment is unfavourable pretty dismissal at this point. The general view is that the Great Recession hasn't worked its way out of the system and with the European banks mostly affected and the Chinese economy rebounds. The one bright spark is the Indian economy, which grew by 7.9 per cent in the last quarter. But generally, there is still a lot of financial volatility in the global system.

The interest rate increases in the United States and the kind of messages that are coming from there also increase the volatility in Emerging Market Economies (EME). There is generally negative sentiment towards EMEs and the mood changes very quickly which is unhelpful.

Our domestic Business Confidence is pretty low so I am hoping that interactions like the ones you are having will lift your spirits and increase confidence and the belief that we are capable of making our plans work in concrete terms, as I have said earlier.

Lower commodity prices are going to stay with us for a while. Although the oil price is sticking slightly above $50 a barrel, it's still a long way from a $100 a barrel as it used to be. So, there are many positive factors economically speaking that economies can derive benefits from. One of the lessons from the lower commodity cycle is the necessity to diversify economies. That is an area that the continent, in particular as you talk to the Chairperson of the African Union (AU) this evening, has a formidable challenge in.

The stimulus witnessed pre-recession periods; 2008, 2009, 2010 and 2011 both from the fiscal and the monetary side in most countries has reached the ceiling. The few countries that still have fiscal space - that is the ability to spend money in order to stimulate the economies - particularly the United States and Germany don't have the political space or the political will to make the right decisions that would benefit their regions and thereby benefit other parts of the world.

PRESERVING RATINGS

Our immediate focus therefore, has to be on intensifying implementation as I said earlier on. The more we implement the better our footing will be in relation to the next point: which is preserving our sovereign credit ratings.

I am sure all of you know why sovereign ratings are important so I am not going to go into that. But it might be very useful to have this discussion around your tables, as to why it is necessity to preserve our sovereign rating. I am hoping that under the leadership in Gauteng, you will be able to turn the collaboration we've seen between government, business and labour to practicality.

We will certainly have differences but this is not the time to focus on them; this is the time to find a common ground. The advantage of working with a common purpose far outweighs the difference that might keep us apart. There is a lot to be gained in that collaboration.

INVESTMENT FOCUS

Another key area is converting investment ideas into real deals. It's not as if South Africa is depleted of investment. If you speak to my trade and industry colleague Minister Rob Davies, he will give you plenty of examples of 100 jobs here, 500 there, a 1000 there. In the motor industry in particular, we have observed increased investment but what is missing in our case is the scale - we need to increase the scale of investment.

The question - whether you are a local government politician or bureaucrat, - is how we as South Africans attract investment into our shores How do we become investor-friendly without being - and this is a dangerous word in South Africa at the moment - captured by various interest. You can be friendly, independent and welcoming and still stick to the rule of law. I have learnt that over many years. You don't have to be in anybody's pocket to do the right thing and exercise your own principles and do the right thing as far as public interest and national interest is concerned.

If you ask many people, they will say the difference between us as South Africa and many other parts of the world is that we lack urgency, we lack thirst. We lack this absolute burning desire to get people to come into this country, invest and work together as Government, labour and business so that we can indeed create jobs and lift the 0.7, 0.8, 0.9 percent growth number to be on to 2 percent in another year or two. That is a tough question we have to ask ourselves. How are we going to actually inject ourselves with that extra energy and urgency that is actually required?

INCLUSIVE GROWTH

The last point is important - that benefits should accrue to all social partners. We have as the numbers (on inequality) I quoted earlier from the Guardian newspaper. We need to find a new formula and new mechanisms to ensure that all sectors of society benefit otherwise the rest of society will play catch-up with the political and economic elites in different countries.

In terms of the global growth picture, the numbers are fairly weak for the next two years or so. There is a lot of trouble in emerging market countries such as Brazil and Russia because they find themselves in recession. Even in South Africa, growth has been declining from 2010 to 2015. So we have to ask ourselves what we can do as Gauteng, the engine room of the South African economy, to change this configuration and reverse this trend.

Our own budget forecasts which we will update in October don't look too good but the situation will improve as we go into the latter part of 2016 and 2017, unless there are unexpected global shocks.

In respect of mining and manufacturing sectors, the picture is gloomy there is nothing exciting happening in these two sectors of our economy while the retail sector is likely to provide some support going forward but unemployment has shot up in recent times. When you speak to the Statistician General later, ask him to elaborate on these numbers and what they mean for us. But I don't like talk too much about the numbers but rather focus on what the numbers are telling us. Do all of our efforts actually contribute to the change in the numbers? Do all of the things that we do as business and labour and Government impact this picture and turn it into a different direction. Because if our efforts don't change the picture, then we are not making the impact we should be making on the economy.

The public sector in that last 4 or 5 years has been the key employer while private sector employment has been growing marginally in various sectors. But we have also been losing jobs and getting new entrance into the labour market. This is another interesting concept that was discussed in the OECD meetings: the broken promises to the youth, which is a big concern for us as well.

As a resourceful country as we are, we haven't yet cracked what it is we need to do with unemployed and low skilled youth e or what are the kind of ventures we should come up with. I hope that you can come up with some answers in this regard to help the youth to move into a terrain where there is hope for their future and they can see prospects for any entrepreneurial spirit that they have.

We have done the fiscal bit as Government earlier this year and you can see that the ratings agencies have given recognition to that. But fiscal consolidation can end up being anti-growth so to speak. In other words, if you cut your expenditure too much as Government you can damage the prospects for growth. You therefore, have to keep the balance when narrowing the deficit on the one hand and sustaining some level of contribution to growth on the other hand.

The key challenge for us is how we can produce higher levels of growth and in particular inclusive growth in the South African context. I am sure you will discuss industrial and labour policy, which is something that Gauteng has been looking at and is a big structural constraint from our past.

STRUCTURAL REFORMS

A big issue globally is whether we have the political strength, political space and political will to take on difficult structural challenges that require reforms. Countries all over the world including our own political and economic leaders are grappling with the question of how do we restructure our economies and take on tough challenges. How do we undertake reforms that would potentially create a better environment for growth and job creation in our respective countries?

In our case, our reforms are focussing on the energy environment. We now need to ensure that our energy generation gets ahead of the curve so that when the economy starts growing again energy is no longer a constraint as it has been for the last few years. Finding new ways of getting coal generation from the private sector is an important part of what we are trying to do.

In respect of labour reforms, there are ongoing discussions in Nedlac. The focus is also on the way in which State-Owned Companies are governed and their financial management. We are also looking into what we can do to create systems that are supportive of micro and small businesses – an area in which we have been lagging I think, particularly at a municipal level. But unfortunately there is no magic formula that guarantees high levels of growth as result of reforms that says if you undertake these reforms you will necessarily get high levels of growth.

But what is clear is that if we solve the electricity constraint we can in fact lift growth by 2.1 per cent or beyond. This shows how energy has been a major factor in the constraints that we having on growth. Similarly transport bottlenecks can make the contribution to take us to 3 percent growth. If we address our shortage of skilled labour that takes us to 3.5 percent growth. If we solve the low domestic savings and small market size that can take us to 4 percent growth. These are some of the areas we are focussing on at national level in particular the 9- Point Plan which involves energy, agriculture and agro-processing which I am sure you will be looking at amongst the sectors as well including advancing beneficiation or value-add to our mineral wealth.

CONCLUSION

Let me round up.

One key area is removing constraints which itself can add quite a few percentage points to growth if we get it right.

If you go to Rwanda it will show how many hours it takes to register a business. If you compare it to the World Bank study on our eight metro cities published in 2015 which shows that in some metros, it can take up to 300 days to connect water to a business. Can you visualise that, 300 days just to get a water connection! Hundreds of days to get plans passed. All of those are important constraints on growth that we can very easily change for positive results.

Driving employment intensive growth is another area we talk a lot about. Whilst we have done some work, there is a lot more we can still do in this particular area. The infrastructure constraint I mentioned earlier on, skilling up small businesses and improving the ease of doing business are some of the issues.

The Invest South Africa initiative is an important one. The ambition here is to create a one-stop shop so foreign and local investors can solve all of their problems in one place instead of running from here to there.

On the fiscal side, we have been asking provinces and national departments to stop filling all posts so that we can reduce the compensation part of our budget and make sure that more goes into investment rather than consumption on the expenditure side of the budget as well. These are some of the areas that we have been working on as a result of the efforts that the President initiated in respect of Government, business and labour.

Let me conclude by saying that the human part of some of this work is as important as the technical part. As the leadership of the province, you have a clear vision for where you want to take this province.

Secondly, I would ask for constructive leadership from all sectors of society where we are willing and have the courage to work together and forget our small differences and focus on the issues of growth and employment and the business generation as well. We have to find the new spirit of collaboration amongst us if we are going to overcome the hurdles of the next 18 months or so. Even if we do all the right work between now and December, it’s the next year that is the key for us as South Africans, to show that we can move into a different kind of a growth path.

I am sure what you will discuss is the question of institutions as well. We shouldn’t be reliant on any individuals. What we want is strong, resilient, principled institutions that outlive all of us, that have the right culture, right values that we can bequest to future generations. Each of us - whether we come from labour, business or Government - has a responsibility to continue to contribute towards the building of institutions so that we can achieve social justice and ensure that we create an economy where benefits do accrue to all of our people.

Thank you

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