MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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GEPF THOUGHT LEADERSHIP EVENT – THE CURRENT ECONOMIC ENVIRONMENT AND THE CHALLENGES IT POSES

DATE: 10 SEPTEMBER 2018

Thank you for inviting me to address this Inaugural Thought Leadership Conference hosted by the Government Employees Pension Fund (GEPF). I have been asked to talk to the current economic environment and the challenges it poses. The topic you have asked me to speak on is one that touches each and every one of us. It is certainly a topic on everyone's lips – and one which I welcome more discussion on. Raising growth is critical for transforming the future of the people of our country and building on the progress we have made towards uplifting our people and achieving true economic transformation.

Today I am going to briefly touch on the global and domestic economy, and spend more time discussing what exactly is being done to address constraints to higher and inclusive economic growth. This is important because we realise that the current growth trajectory is too low to achieve the National Development Plan aspirations. The time for action is upon us – we need to expedite our efforts, together with our social partners, to implement the necessary reforms we need to move forward as a country.

The current global economic environment

The global economic environment is characterised by increasingly uneven growth and rising volatility. In their latest World Economic Outlook (WEO), the IMF expects global growth to rise by 3.9 per cent in 2018, from 3.7 per cent in 2017.

Rising trade tensions and tightening financial conditions have introduced downside risks to the global growth outlook. In addition, a mix of idiosyncratic challenges in several emerging market economies and broader fears of a deteriorating global environment for trade and dollar funding has impacted countries such as South Africa.

South Africa remains vulnerable to sudden shocks in the global economy, particularly those that affect investor appetite for risk as well as capital inflows. Despite our external vulnerability easing somewhat, thanks to a narrowing current account deficit (mainly driven by an improving trade balance), South Africa is still heavily reliant on foreign savings to finance the current account deficit. Domestic savings are not sufficient to meet the investment needs of the country. A sudden stop, or reversal in capital inflows, is generally associated with a sharp depreciation of the currency, a sharp rise in borrowing costs, and a fall in aggregate demand. Output will fall and unemployment will rise substantially, generating further risks for the fiscus.

The current domestic economic environment

The outlook for the economy remains fragile. The contraction in GDP growth in the second quarter of 2018 and the downward revision to the first quarter data pose significant downside risks to National Treasury's projection of 1.5 per cent growth presented in February. Subdued business confidence, weak activity in the supply-side of the economy and various headwinds to household spending will hinder a robust recovery in growth.

Ladies and gentlemen, South Africa's growth trajectory is too low to meet the needs of our people, in particular youth unemployment which remains too high at 55 per cent. Over 30 per cent for those who have not completed secondary education find themselves out of work. And once you have been excluded from the labour market, you find it very difficult to get back in. To make a significant dent on the unemployment rate, which currently stands slightly above 27 per cent, our economy will have to grow at 5 per cent or more.

Low growth limits the ability of the economy to transform because it threatens the sustainability of critical social spending by government as well as the overall progressivity of tax and fiscal policy. Furthermore, low growth limits the ability to enact counter-cyclical fiscal and tax policy, which could otherwise be deployed as an additional measure to boost aggregate demand. Ultimately, low growth may also threaten the overall long-term potential growth rate of the economy if it translates into the inability of a country to implement critical growth-enhancing interventions such as productive infrastructure investment or improving quality education and skills training. Without significant investment in physical and human capital, there is little chance of escaping the low growth trap. Yet, we face challenges in upskilling our people to meet the needs of business and the 4th industrial revolution.

What government is doing

In response to this difficult global and domestic environment I have outlined, government continues to implement structural reforms as set out in the National Development Plan. However, in order to achieve the aspirations of reducing inequality, eliminating poverty and creating jobs, we need to move to a faster pace of growth and ensure that such growth benefits as many people as possible.

The government is working on actions to ensure policy certainty and improve investor confidence. For example:

- Mining sector stakeholders are re-engaging with the Mining Charter, which should be finalised by November;
- The Integrated Resource Plan for energy is before parliament; and
- The release of additional spectrum will occur shortly.

Steady progress has been made in implementing reforms to restore governance in state-owned entities. For example, the Presidential SOE Council has been established, board changes have been announced at numerous SOEs, and there are efforts to address the financial management challenges that they face.

Government is also working together with social partners to find solutions to reignite growth and create jobs. Parliament has approved the draft legislation to implement a national minimum wage as well as the Labour Relations Act amendments, bringing the long and hard work of social partners at Nedlac to fruition. These changes are important to address wage inequality. It also contributes towards preventing prolonged and violent industrial action and improves trust between employers and employees over the long term.

The collaboration between government and the private sector has also birthed the Youth Employment Service (YES) initiative, which was launched earlier this year. The aim of this initiative is to create job opportunities for young employees. In addition, South Africa will host a Jobs Summit later this year to bring together business, labour and government with the objective of boosting employment.

Furthermore, an Investment Conference will also be held in South Africa in October, targeting both domestic and foreign investors with the aim of generating $100 billion worth of investments over the next five years. As part of the build-up to the conference, the Presidential investment envoys have been meeting extensively with both local and foreign investors in order to understand the bottlenecks to investment and to commit to efforts, that are co-ordinated across government, to remove them.

The Small Business and Innovation Fund, with an initial allocation of R2bn, will focus on an area in the market that is under serviced – the start-up phase. This should complement the work of the CEO Initiative's SME Fund, which already has commitments of R1.4 billion to date, with approximately R500 million expected to be disbursed to the first round of enterprises this year 2018/19. This will also leverage the strengths of the many excellent incubators to be found in universities such as Wits and Stellenbosch.

Should the global environment remain supportive, the effective implementation of reforms in areas such as agriculture, competition policy, telecoms, tourism and others could, according to National Treasury estimates, add two to three percentage points to real GDP growth over the coming decade.

There's much more work to be done to implement economic reforms. As such, Cabinet is putting the final touches to an economic reform package to reignite growth, in addition to the reform agenda we are implementing. More details on the reform package will be announced next month.

Conclusion

Ladies and gentlemen, government is keenly aware of the key constraints to growth, and is redoubling its efforts to enact reforms that will raise our economy's level of productivity, increase competition, and reduce the cost of doing business.

South Africa is a country that still holds immerse opportunity. Our real successes are born of harmonious partnerships. I am confident that a true collaborative effort between government, business, labour and civil society will be instrumental in achieving the NDP's vision of eradicating poverty, reducing inequality and creating jobs.

I look forward to you joining us and making this a reality.