2

Economic outlook

Overview

The global economic recovery has slowed, though moderate growth is still expected for the period ahead. The unresolved European debt crisis and uncertainty over bank recapitalisation, alongside anaemic growth in the United States, are significant risks to the world outlook. While developing economies are expected to grow more rapidly than advanced economies, they are not immune to the effects of the slowdown in Europe or the US.

Growth outlook moderated by significant global risks

South Africa is highly integrated with the world economy, which plays a central role in shaping our long-term prospects. Since 2000, the world has experienced unusually strong economic cycles and shocks, and these have been reflected in domestic demand and GDP growth. Government's fiscal balance has responded to these fluctuations and plays an important role in offsetting them.

South Africa needs much faster growth, sustained over a decade or more, to reduce poverty and unemployment in line with the objectives set out in the New Growth Path. Growth must not only be rapid – it also needs to be inclusive, leading to broadening economic participation and a decline in inequality. Realising these goals depends on the private sector becoming more competitive in the rapidly evolving world economy. Government and state-owned enterprises can create an enabling environment in which businesses can grow and create jobs by providing the necessary infrastructure, delivery of public services, and regulatory and competition framework. Measures are required to improve spending of capital budgets, change the way network industries operate and promote competition. Education and skills levels need to be strengthened.

South Africa needs much faster growth, sustained over a decade or more, to substantially reduce poverty and unemployment

In the near term, South Africa will be affected by international trade and investment trends, and is vulnerable to slowing global demand.

GDP growth expected to reach 4.3 per cent in the outer year of the forecast

In recent months the domestic economy has lost momentum as a result of the disruption to world economic activity following the Japanese tsunami, domestic strike activity and moderating household consumption. In the first quarter of 2011, the economy grew at 4.5 per cent on an annual basis. In the second quarter, growth slowed to 1.3 per cent. Real GDP is now expected to grow by 3.1 per cent in 2011 – a downward revision from the 3.4 per cent forecast in the 2011 Budget. Growth is expected to pick up over the medium term as global uncertainty subsides and confidence strengthens. South Africa's GDP growth is projected to reach 3.4 per cent next year, 4.1 per cent in 2013 and 4.3 per cent in 2014.

Economic support package to enhance competitiveness and structural change

Fiscal and monetary policy will remain supportive of demand and economic growth over the short term. The 2012 medium-term expenditure framework (MTEF) will include a package of measures to support improvements in competitiveness and structural change to help enterprises adjust to new market opportunities, technological advances and a more challenging global environment. Over the medium term, fiscal consolidation will be accompanied by determined efforts to shift the composition of expenditure towards greater investment in infrastructure.

The world economy

2012 global growth forecast reduced from 4.5 per cent to 4 per cent

The world economic outlook has deteriorated since publication of the *Budget Review* in February. Production and consumption were negatively affected by disruption in global manufacturing supply chains and an oil price spike. Confidence and growth have been dampened by persistent weaknesses in labour and housing markets in developed economies, and the intensification of the European debt crisis. The International Monetary Fund (IMF) has lowered its global growth forecast from about 4.5 per cent to 4 per cent in 2011 and 2012. Advanced economies are only expected to grow by 1.6 per cent in 2011 and 1.9 per cent in 2012, with downside risks if decisive policy actions are not taken with greater urgency.

Table 2.1 Annual percentage change in GDP and consumer price inflation, selected regions/countries, 2011 – 2013

Region / country	2011	2012	2013	2011	2012	2013
Percentage	GDP projections[1]			CPI projections[1]		
World	**4.0**	**4.0**	**4.5**	**5.0**	**3.7**	**3.2**
US	1.5	1.8	2.5	3.0	1.2	0.9
Euro area	1.6	1.1	1.5	2.5	1.5	1.7
UK	1.1	1.6	2.4	4.5	2.4	2.0
Japan	-0.5	2.3	2.0	-0.4	-0.5	0.0
Emerging markets and developing countries	**6.4**	**6.1**	**6.5**	**7.5**	**5.9**	**5.1**
Developing Asia	**8.2**	**8.0**	**8.4**	**7.0**	**5.1**	**4.4**
China	9.5	9.0	9.5	5.5	3.3	3.0
India	7.8	7.5	8.1	10.6	8.6	7.1
Middle East and North Africa	**4.0**	**3.6**	**4.3**	**9.9**	**7.6**	**6.5**
Sub-Saharan Africa	**5.2**	**5.8**	**5.5**	**8.4**	**8.3**	**6.4**
South Africa[2]	3.1	3.4	4.1	5.0	5.4	5.6

1. IMF World Economic Outlook, September 2011

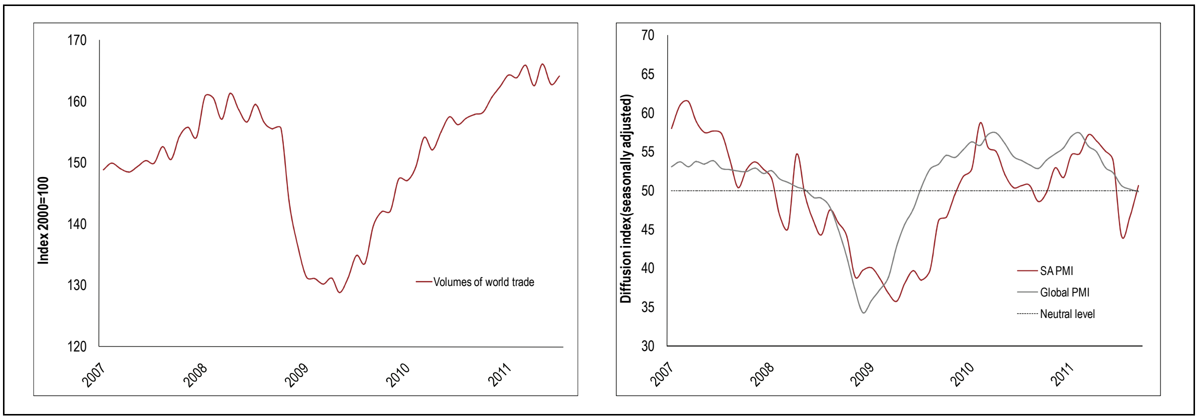
2. National Treasury forecasts

Uncertainty about the pace of global recovery has acted as a brake on job creation in developed countries

In advanced economies, financial stresses on governments, companies, banks and households have sapped demand, leading to weak consumption. Fast-growing emerging economies such as China, India and Brazil are facing inflationary pressures and the risk of overheating as a result of rapid credit extension and booming housing markets. More broadly, uncertainty about the strength of the recovery has acted as a brake on job creation. Employment in advanced economies is more than 12 million below pre-crisis levels.

After recovering strongly in 2010, international trade volumes have flattened this year, as shown in Figure 2.1. Indicators of the health of the manufacturing sector have been in decline for several months, suggesting that global growth will be slower over the near term.

Figure 2.1 Global trade volumes and purchasing managers' indices*



Source: CPB Netherlands Bureau for Economic Policy Analysis, Kagiso and JP Morgan

**A reading above 50 indicates an expansion compared with the previous month*

In the months ahead, international economic recovery depends largely on a credible policy response to the European crisis that will allow financial conditions to stabilise, restore confidence and provide an environment conducive for renewed growth. Weak growth and political deadlock over fiscal measures to strengthen recovery in the United States are also dampening the global outlook.

Capital outflows from emerging market equities reached US$30 billion for the year to October

Recent conditions have fed volatility in capital flows and asset prices, knocking confidence and investment in emerging and developing countries, and exacerbating the negative shock from weak external demand in developed economies. Capital outflows from emerging market equities reached US$30 billion for the year to October as investors sought refuge in traditional safe-haven assets such as the US dollar. In the third quarter, portfolio outflows from emerging markets were the largest since the collapse of Lehman Brothers in 2008.

Over the medium term, emerging markets with relatively buoyant growth prospects will continue to attract capital, placing upward pressure on currencies relative to the dollar – including in China, where the authorities have signalled a gradual move towards a more market-determined exchange rate.

Commodity prices are high and remain volatile

Commodity prices are high and remain volatile. While the gold price has receded from the historic high it reached in August, it remains at elevated levels. The platinum price has declined in recent months but remains about US$500/oz above the average price of the last 10 years. The benchmark oil price rose sharply in the first half of 2011, reaching US$127/bbl in April, before falling to just below US$110/bbl in mid-October.

The unfolding crisis in Europe

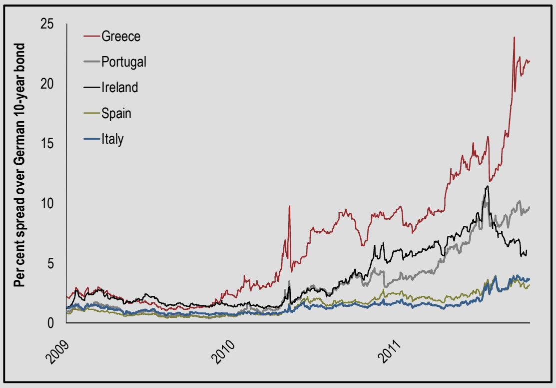
The present crisis in Europe is the result of high sovereign debt burdens and balance of payments strains accumulated over a number of years. The public deficits that led to these debt levels are unsustainable, and have come into sharp focus in the wake of the global financial crisis that began in 2008. While concerns were initially centred on Greece, the crisis has spread to several other eurozone countries and spilled over into the banking sector, putting growing pressure on the European Union (EU) currency union.

The possibility of a Greek default has made investors less willing to lend to vulnerable countries such as Italy and Spain, increasing the cost of borrowing. Bondholders and governments have failed to reach agreement on the level of losses that each may be obliged to absorb. Bond yields have shot up and financial markets have become more volatile. Affected countries are turning to severe austerity measures, dampening near-term growth and contributing to rising social tensions.

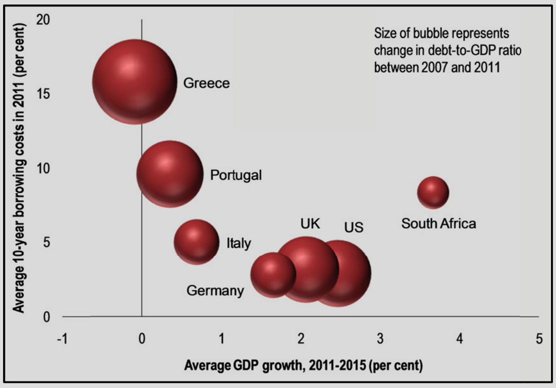
Banks in Europe are widely exposed to EU sovereign debt, and default by any country in the currency union will trigger large banking sector losses, with dramatic consequences for the world economy.

Recent commitments by EU leaders to ease the borrowing constraints faced by sovereigns and banks need to be complemented with credible plans to boost competitiveness and growth. Failure to do so could result in global contagion. Slower growth and instability in Europe would reduce demand for South African exports and increase rand volatility.

Borrowing costs



Change in debt, growth and interest costs



Source: Bloomberg and International Monetary Fund

Domestic outlook

South Africa's real GDP growth slowed from a seasonally adjusted annual rate of 4.5 per cent in the first quarter of 2011 to 1.3 per cent in the second quarter, as manufacturing, mining and agriculture contracted. For the remainder of 2011, uncertainty and the weak global environment will result in moderate growth.

Real interest rates are low and the banking sector is well capitalised

Domestic conditions are largely supportive of growth. Real interest rates are low, and will assist in bolstering private-sector consumption and investment over the medium term. The banking sector remains well capitalised, with little exposure to the sovereign debt risks in Europe. Manufacturing should experience faster growth as the world economy improves over the medium term, but sustaining increased exports requires structural improvements to the economy's underlying competitiveness.

Assuming an orderly resolution of the European financial crisis, the domestic outlook improves over the medium term

Over the next three years, growth is expected to increase gradually in tandem with the improved global outlook, rising above 4 per cent in the outer years of the forecast. This assumes an orderly resolution of the European debt crisis, the avoidance of a US recession and continued strong growth in emerging markets, particularly China. A different international outcome will affect the domestic outlook:

- Stagnating global growth would reduce South Africa's exports. Europe, Japan, and the US account for 44 per cent of total exports and 47 per cent of manufactured exports.
- Capital flow reversals could lead to weaker equities prices on the Johannesburg Stock Exchange, greater pressure on the rand, rising bond yields and higher borrowing costs.
- A weakening in emerging markets, especially China, could put downward pressure on commodity prices, reducing the profitability of the mining sector.

The macroeconomic projections over the MTEF are set out in Table 2.2.

Table 2.2 Macroeconomic projections, 2008 – 2014

	2008	2009	2010	2011	2012	2013	2014
Calendar year		**Actual**		**Estimate**		**Forecast**	
Percentage change unless otherwise indicated							
Final household consumption	2.2	-2.0	4.4	4.3	3.7	4.4	4.5
Final government consumption	4.7	4.8	4.6	4.4	4.1	4.1	4.1
Gross fixed capital formation	14.1	-2.2	-3.7	2.9	4.5	5.7	6.3
Gross domestic expenditure	3.4	-1.7	4.2	4.1	3.8	4.6	4.6
Exports	1.8	-19.5	4.5	4.0	6.9	7.1	8.0
Imports	1.5	-17.4	9.6	7.6	7.8	8.2	8.4
Real GDP growth	**3.6**	**-1.7**	**2.8**	**3.1**	**3.4**	**4.1**	**4.3**
GDP inflation	8.9	7.2	8.1	6.7	5.8	6.4	6.0
GDP at current prices (R billion)	**2 274.1**	**2 396.0**	**2 664.3**	**2 931.8**	**3 208.2**	**3 555.0**	**3 930.5**
Headline CPI inflation	9.9	7.1	4.3	5.0	5.4	5.6	5.4
Current account balance (% of GDP)	-7.1	-4.1	-2.8	-3.4	-3.8	-4.0	-4.2

Table 2.3 Macroeconomic projections, 2010/11 – 2014/15

	2010/11	2011/12	2012/13	2013/14	2014/15
Fiscal year	**Actual**	**Estimate**		**Forecast**	
Percentage change unless otherwise indicated					
Real GDP growth	3.3	2.8	3.8	4.1	4.3
GDP inflation	8.9	5.4	6.7	6.1	5.9
Headline CPI inflation	3.8	5.4	5.2	5.6	5.4
GDP at current prices (R billion)	**2 748.2**	**2 977.7**	**3 298.0**	**3 642.6**	**4 023.4**

Household consumption growth will moderate in the short term as rising inflation limits disposable income. In the outer years of the forecast, household consumption growth will rise back above 4 per cent.

Growth in gross fixed capital formation is expected to continue its recovery, rising from 2.9 per cent this year to 6.3 per cent in 2014.

Current account balance widens from 3.4 per cent to 4.2 per cent of GDP in 2014

The trade balance is expected to deteriorate as import growth outpaces export growth. The projected current account deficit widens to 4.2 per cent of GDP in 2014 from 3.4 per cent in 2011.

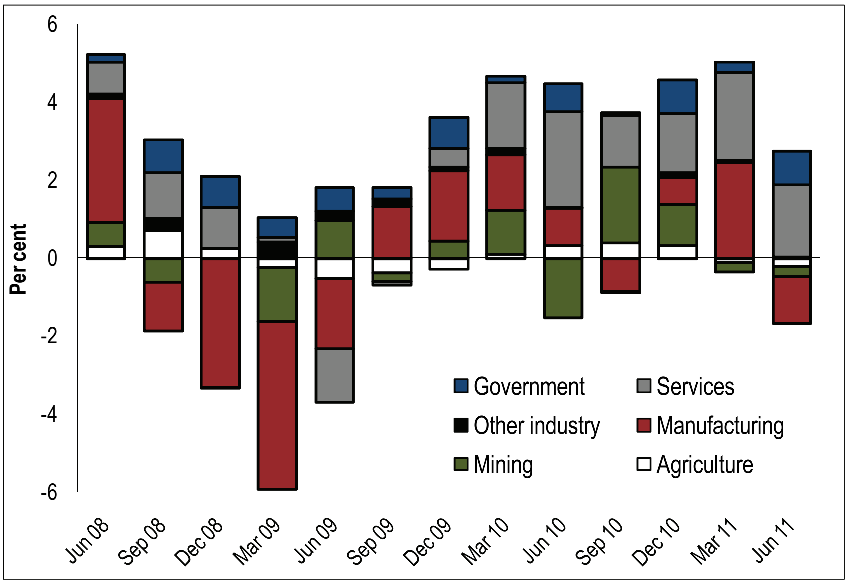
Inflation is expected to breach the 3-6 per cent target band temporarily in the first quarter of 2012, and to average 5.5 per cent over the forecast period.

Trends in the South African economy

Household consumption and signs of a revival in investment supported growth over the past 12 months

Household consumption and signs of a revival in investment have supported growth in the domestic economy over the past 12 months. Global supply chain disruptions, alongside temporary domestic factors affecting mining and manufacturing, contributed to slowing output growth in the second quarter of 2011. These developments, in combination with a weaker global outlook, rand volatility, sharp rises in administered prices, and policy and regulatory uncertainty, have weakened business and consumer confidence.

Figure 2.2 Sector contributions to GDP growth, 2008 – 2011



Source: Statistics South Africa

Currency volatility

Durable benefits of a more competitive rand can be obtained from improved productivity and lower costs

The rand remains one of the world's most volatile currencies, trading in a range of R6.58/US$ to R8.25/US$ between January and October of this year. In August, increasing global risk aversion led to capital outflows and the rand weakened alongside other emerging market currencies. The nominal trade-weighted rand declined by 18 per cent between January and October; in real terms, the decline has been less pronounced, owing to South Africa's higher inflation compared with its trading partners.

While this trend will benefit exporters, the costs of imported goods such as oil will increase. To obtain durable benefits from a more competitive currency, exporters need to improve productivity and contain domestic input costs.

Weak performance in mining, manufacturing and agriculture

Overall mining value added grew by 6.3 per cent in the first half of 2011, year on year. Production of platinum group metals rose by 16.3 per cent over this period. In the year to August 2011, overall mining production has declined by 4 per cent, with steep falls in diamonds and gold, despite a 12 per cent increase in primary commodity prices. Strikes and safety-related stoppages disrupted production.

Mining underperformance

Value added in South Africa's mining sector was flat between 2001 and 2008, compared with 12 per cent growth in Chile. Investment growth averaged 7 per cent per year during the 2000s compared with 24 per cent in Australia. Several factors contributed to this underperformance:

- Uncertainty in the regulatory environment governing the transfer of mining rights, and an opaque permit-granting process, compounded by inefficient administrative processes and lengthy waiting periods for the issuance of water licences.
- Logistical challenges, including operational inefficiencies in the rail system and high port charges.
- Investment in electricity generation capacity remains crucial to prevent production stoppages.
- Volatility of the exchange rate leads to widely fluctuating rand commodity prices.
- The debate on nationalisation has fed uncertainty among investors.
- Gold mining now occurs at very deep levels, with higher costs and risks.

Manufacturing gross value added grew by 3 per cent in the first six months of 2011, compared with the first half of 2010. Following value-added growth of 14.5 per cent in the first quarter, the sector contracted sharply, declining at an annualised rate of 7 per cent in the second quarter, as motor vehicle production fell due to delayed input supplies from Japan. Manufacturing output is likely to remain weak in the third quarter.

Table 2.4 Manufacturing production by subsector, 2010 – 2011

	Weights	Annual growth 2010	Production growth (saar[1]) Q1 2011	Q2 2011	Year to date growth Dec 2010 – Aug 2011
Petrochemicals	22.1%	6.0	29.4	-7.9	3.2
Basic iron and steel	22.9%	4.3	31.1	-0.6	0.6
Food and beverages	15.4%	4.0	-4.9	-9.2	3.2
Motor vehicles and parts	10.9%	20.1	7.8	-25.0	7.8
Wood and paper	10.2%	4.8	7.8	-18.7	-8.7
Furniture and other	5.2%	-2.5	49.4	0.4	17.1
Textiles and clothing	4.9%	-6.1	-4.5	-2.9	1.5
Glass, etc	4.8%	-2.9	1.9	-0.7	3.6
Electrical machinery	2.5%	5.5	8.1	-7.1	-4.1
Radio and television	1.1%	-3.9	10.0	15.9	14.3
Total	**100.0%**	**4.9**	**15.6**	**-8.7**	**2.5**

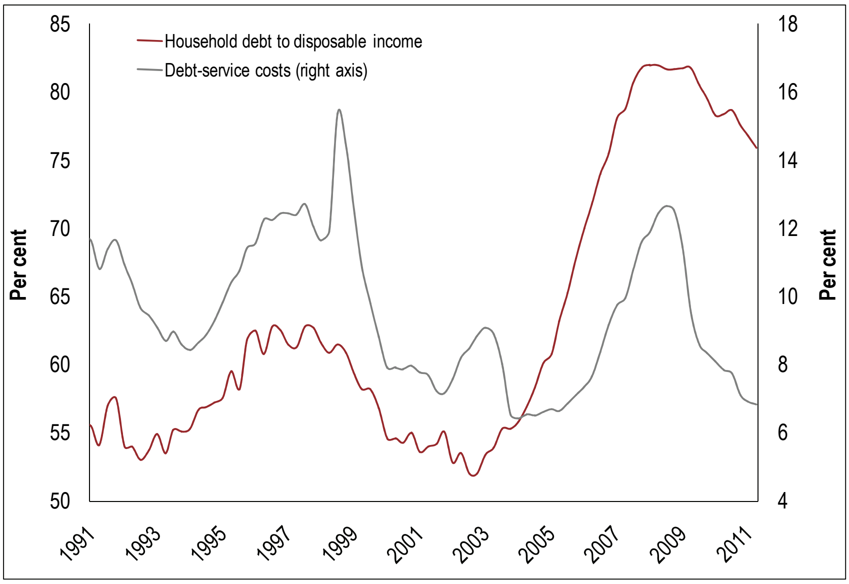
1. Seasonally adjusted annualised rates
Source: Statistics South Africa

Agricultural value added increased by 6.6 per cent in the first half of the year compared with the same period in 2010, but has contracted in each of the first two quarters of 2011, largely as a result of adverse weather conditions that affected harvests. Compared with the first six months of 2010, value added by services increased by 3.3 per cent in the first half of 2011, with robust growth across all sectors.

Household consumption underpins the recovery

Household consumption has continued to grow strongly, accounting for more than two percentage points of growth in the first half of 2011. Rising real disposable incomes, expanding employment for higher-skilled workers and low interest rates have sustained consumption spending, and also enabled households to pay down debt to levels last seen in 2006. The ratio of household debt to disposable income remains elevated, but has declined from a peak of 82 per cent in the first half of 2008 to 75.9 per cent in the second quarter of 2011.

Figure 2.3 Ratios of household debt and debt-service costs to disposable income, 1991 – 2011*



Source: Reserve Bank

**Data for 2011 is for first two quarters*

Low levels of credit demand, a sluggish housing market and high levels of non-performing loans have contributed to muted growth in credit extension to households.

A recovery in investment

Private gross fixed capital formation expanded at an annual pace of 4 per cent in the second quarter of 2011

Following a sharp contraction during the 2009 recession, private gross fixed capital formation has started to revive, expanding at an annual pace of 4 per cent in the second quarter of 2011, mainly due to increased purchases of machinery and transport equipment. Investment in mining and communications registered the fastest growth in the first half of 2011. Despite these improvements, real investment in the second quarter of 2011 was 8 per cent below its pre-crisis peak.

Table 2.5 Contribution to overall investment growth, 2007 – 2011

Percentage	2007	2008	2009	2010	2011[1]
General government	3.3	2.6	-0.6	-1.7	-0.2
Public corporations	4.2	5.1	4.3	0.8	0.8
Private enterprises	6.5	6.4	-5.9	-2.7	1.5
Total	**14.0**	**14.1**	**-2.2**	**-3.7**	**2.0**

1. First half of 2011 compared to the same period in 2010
Source: Reserve Bank

Inflationary pressures remain contained

Administered prices are a major contributor to inflation

Headline consumer price inflation has remained within the target range of 3 per cent to 6 per cent for 20 months and is expected to average 5 per cent in 2011. Rising food and petrol prices have put upward pressure on inflation, which increased from 3.2 per cent in September 2010 to 5.7 per cent in September 2011. Increases in administered prices (set by government or governing agencies) are a major factor: in 14 of the 18 administered price components, inflation is above 6 per cent, with double-digit increases in electricity, water supply, refuse collection and sewerage prices.

The Reserve Bank has kept the repurchase rate unchanged at a 30-year low of 5.5 per cent since November 2010.

Current account developments

Foreign direct investment inflows of R17.3 billion during the first half of 2011, up sharply from 2010

South Africa's terms of trade improved by 1.9 per cent during the first six months of this year compared with the 2010 average. Exports grew by 13.9 per cent in the second quarter following a substantial contraction during the first three months of the year. Imports grew by 9.8 per cent and the current account deficit increased marginally from 2.8 per cent of GDP in 2010 to 3.2 per cent in the first half of 2011. The financial account surplus totalled 5.5 per cent of GDP in the first half of the year, compared with 4 per cent in the whole of 2010. Inflows were dominated by R55.9 billion in portfolio flows, primarily into government bonds, and foreign direct investment inflows rose to R17.3 billion – nearly three times the amount recorded in the first half of 2010.

Towards a simpler, more competitive investment framework

Proposed reforms to the prudential and investment regulatory framework aim to promote investment into South Africa and as a gateway into Africa – and to reduce the cost of doing business.

Enhancing domestic capital markets

Following public comments received on the *Prudential Regulation of Foreign Exposure for Institutional Investors* discussion document, the National Treasury proposes that all inward listed shares on the JSE be classified as "domestic" for the purposes of trading on the exchange, and be included in its indices. Details will be provided by the JSE. Prudential institutions would still be required to report their foreign exposures to the regulatory authorities, subject to regulatory criteria. This proposal is intended to enhance the ability of the JSE to attract new listings and boost investments into Africa. Further work is in progress to modernise the foreign direct investment framework.

Improving access and competition in cross-border money remittances

Government proposes to remove ownership restrictions on international participation in foreign currency exchange bureaus, also known as authorised dealers with limited authority (ADLAs). The requirement for money remitters to partner with authorised dealers will also be removed. Remitters will be regulated as standalone entities, subject to reporting and regulatory requirements. These changes aim to reduce the cost of cross-border remittances, particularly to other countries in Africa.

Reducing red tape on cross-border transactions

Cross-border transaction thresholds will be amended to reduce red tape, simplify payment mechanisms and eliminate bias between resident and non-resident individuals.

The Reserve Bank will publish details on these proposals and other administrative reforms.

A sluggish labour market response

Unemployment has risen since the recession, and job creation has been particularly weak for young people and the less skilled

The labour market remains sluggish. While output has risen by 6.2 per cent over the last two years, formal sector non-agricultural employment is just 2.6 per cent higher than its low in March 2010. Unemployment increased from 21.8 per cent in the fourth quarter of 2008 to 25.7 per cent in the second quarter of 2011. This figure does not capture the estimated 2.2 million workers who have stopped looking for work. Formal sector non-agricultural job creation has been concentrated in government. Finance, real estate and business services, retail and wholesale trade, and mining have created net employment over the last year. Net job creation also occurred in construction during the first half of 2011. Job creation has been particularly weak for young people and the less skilled.

Table 2.6 Changes in formal employment by sector, December 2008 – June 2011

	Total employed June 2011 (thousands)	% of total	Change December 2008 – March 2010 (thousands)	Change March 2010 – June 2011 (thousands)	% Change in real monthly earnings 2008 – 2010
Community and personal services	2 324	28	44	121	14.9
Construction	416	5	-56	-2	25.7
Finance, insurance and real estate	1 820	22	-172	78	11.0
Manufacturing	1 152	14	-88	-35	13.8
Mining and quarrying	515	6	-27	24	13.5
Retail and wholesale trade	1 654	20	-117	24	9.3
Transport and communication	356	4	-7	-3	11.1
Utilities	59	1	-3	3	23.4
Total	**8 296**	**100**	**-426**	**210**	**14.2**

Source: Statistics South Africa (QES - Quarter 2, 2011)

Despite tepid demand for labour, nominal wage settlements averaged 7.7 per cent in the first nine months of 2011, compared with 8.2 per cent in 2010 as a whole. Real wage settlements increased by 3.1 per cent in 2011, following a 3.9 per cent increase in 2010.

Supporting demand and increasing growth

An economic support package funded within the fiscal framework to help make industry more competitive and create jobs

The 2012 MTEF will introduce an economic support package to encourage improvements in competitiveness and promote structural change. Government will provide about R25 billion over the next six years for a range of interventions to invigorate industrial development zones, assist enterprise investment and job creation, support the transition to a greener economy, and leverage infrastructure investment and risk-sharing partnerships with the private sector. The package will include temporary mechanisms to bolster productivity and innovation in industries that have demonstrated long-term competitive potential. Funding of the package over the next three years will be contained within the available fiscal envelope.

Continuing investment in network infrastructure

Public-sector investment is continuing in energy, roads, rail, telecommunications and water

Public-sector infrastructure investment, which has increased as a share of GDP from 4.3 per cent in 2005 to 7.5 per cent in the first half of 2011, remains central to government's economic development plans. Infrastructure projects in energy, roads, rail, telecommunications and water will ease bottlenecks and reduce costs in the rest of the economy, crowding in private investment and improving access to export markets. Complementary reforms to improve the quality of regulation and encourage increased private-sector participation will improve efficiency and lower costs in these sectors.

Building infrastructure for a globally competitive economy

South Africa needs adequate infrastructure to produce and transport goods and services more efficiently, promoting growth and creating jobs. Following a sustained decline between the early 1980s and the mid-2000s, capital investment by government and state-owned enterprises has grown rapidly in real terms over the last six years, rising from R67.5 billion in 2005 to more than R140 billion today. Key features of the capital investment programme include:

- Continued investment in the road network, including stepped-up rehabilitation and maintenance of provincial roads and national highways.
- Expanding investment of bulk freight rail to support mining production, including coal haulage capacity and the iron ore line to Saldanha Bay, to raise transport volumes from 47 million tons to 60 million tons.
- Investment in commuter rail infrastructure and rolling stock as part of an 18-year, R80 billion replacement and modernisation programme.
- Completion of Transnet's R23 billion Durban-to-Johannesburg multiproduct pipeline in 2014/15.

Eskom's capital expenditure programme is intended to double its electricity generation capacity from 40 000MW to 80 000MW by 2025 and ensure the economy benefits from a reliable supply of electricity. The Ingula, Medupi and Kusile power stations are projected to be completed by 2014, 2015 and 2018 at a cost of R21 billion, R99 billion, and R121 billion respectively. In addition, Eskom is investing R24 billion in returning old power stations to service and R28.8 billion on building transmission infrastructure.

The second phase of the Lesotho Highlands water project is a R15 billion investment in the Pohali reservoir, and associated water transfer and hydroelectric projects. Over the medium term, the Trans Caledon Tunnel Authority will invest R5 billion in various projects, including the Mooi-Mgeni transfer scheme, the Mokolo-Crocodile and Komati water supply projects, and the Olifants River water resource development project.

Private investment in telecommunications infrastructure will boost broadband speed and volumes, and reduce costs. By 2013 five submarine cables will connect South Africa to global telecommunications networks. In partnership with the private sector, government will roll out land-based fibre optic infrastructure in the large metros and build networks in underserviced areas to expand internet access.

Economic development zones

Promoting investment in industrial development zones to boost exports

Industrial development is central to sustainable growth, investment and employment in fast-growing cities and metropolitan areas. Incentives are under consideration to facilitate public and private investment in economic infrastructure, and attract employment-intensive industry and services into industrial development zones, with the potential to export, join global supply chains and become competitive logistics hubs.

Small business and competition

Regulatory and tax burdens should not unduly burden small business

High regulatory burdens related to labour and trade issues, licences and permits, taxation and access to finance impose a disproportionately large cost on small firms. Greater levels of competition and job creation can be achieved by working with small business to alleviate these problems. Regulatory and administrative burdens on small firms should not unduly impinge on business creation, growth and expansion.

Opening and competing in new markets

Government is working to diversify export markets

Developing countries account for about 43 per cent of world imports, up from 30 per cent in 2000. South Africa remains heavily reliant on its traditional trading partners (the US, European Union and Japan), making exports vulnerable to a slowdown in advanced economies. Rebalancing exports to achieve a greater presence in fast-growing regions will take time given differences in demand for goods and services, and the need to adjust logistics and institutional arrangements. Government is working to diversify export markets by providing an environment conducive for business to expand – including through its new association with Brazil, Russia, India and China as part of the BRICS grouping.

Regional integration

Eliminating non-tariff barriers would strengthen trade throughout Sub-Saharan Africa

There is much potential for expanded trade and investment in Sub-Saharan Africa. Strategies to promote regional integration should involve opening up the north-south corridor through collaborative infrastructure investment and participating in regional energy markets. Deterrents to trade – including inefficient customs procedures, complicated rules of origin and other non-tariff barriers – should be addressed. Talks have begun to create an African free-trade area comprising 26 countries with a combined population of 600 million and GDP nearing US$1 trillion.

Support for job creation

Real wages will increase over time, improving workers' living standards, as national income and productivity rise

Investment in infrastructure needs to be accompanied by strengthening labour market institutions to support faster growth, and to expand jobs and skills development. Real wages will rise over time, improving workers' standard of living, as national income and productivity rise. However, moderation in the growth of unit labour costs would support more rapid job creation and competitiveness. Wage moderation throughout government and state-owned entities would support a shift in the composition of state expenditure towards investment.

The recent agreement between the textile industry and the Southern African Clothing and Textile Workers Union, in which lower wages for new employees accompany a commitment to create new jobs, is a constructive approach to raise employment. Fiscal support for lower-wage employees and new entrants should be strengthened. Expanding the community work programme over the medium term will support low-income households and bring more people into the labour market.

Green growth

Steps to reduce greenhouse gas emissions and promote sustainable use of resources

Trade, industrial and energy policies need to be aligned to support the transition towards a green economy. The first steps have been taken towards major investments in renewable energy by the private sector. Electricity demand management measures have also been given greater impetus, and environmental employment programmes have received additional funds. Policies to ensure the sustainable use of resources include the financing of green projects by the Industrial Development Corporation and the Development Bank of Southern Africa, carbon emissions reduction through government's integrated resource plan, the proposed carbon tax, and the introduction of a dedicated fund for green economy initiatives.

Conclusion

While growth is expected to pick up over medium term, structural reforms are required to sustain more rapid, inclusive growth

The world economy is going through a period of slower growth and increased uncertainty. South Africa's growth has slowed but remains positive, and is expected to pick up over the medium term. Fiscal and monetary policy remains supportive of growth. Current growth rates are not fast enough to support the employment gains and poverty reduction that the country requires. This will require structural reforms to set the economy on a different growth trajectory that increases labour absorption, raises competitiveness and ensures that the benefits of growth are shared.