



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

LECTURE AT THE UNIVERSITY OF FORT HARE
EAST LONDON, 1 AUGUST 2014
NHLANHLA NENE
MINISTER OF FINANCE

Ladies and gentlemen, it is indeed an honour to be here today at the University of Fort Hare.

This University stands amongst the greatest in our nation, and one of the greatest on the African continent. These corridors echo with the voices of Nelson Mandela, Oliver Tambo, Mangosuthu Buthelezi, Robert Sobukwe, Desmond Tutu, Kenneth Kaunda, Julius Nyerere, Robert Mugabe and Joshua Nkomo. You as students and faculty, stand on the shoulders of giants.

It has come a long way, from 1916, when it first opened its doors African, Indian, Coloured and two White students, under the designation of “South African Native College”. With campuses across the Eastern Cape, the University is now a significant intellectual force in our country and long may it last.

Those great names were once unknown young people. Through pure hard work, grit and determination they built themselves into the greats of today. We have a great debt to them, and we can repay that debt by following their example. And this example applies to us both as individuals and as a collective.

Overview of the global economy and growth prospects

Here in the beauty of the Eastern Cape, we feel far from global developments. But, the 2008 Global Financial Crisis and its aftermath, have shown how events far away have implications for us at home.

The global economy continues to strengthen, but growth is uneven and downside risks still remain. Growth in developed countries has gained momentum, but the expansion in emerging markets has slowed.

Developing economies remain vulnerable to volatile capital flows, and growth is further constrained by supply-side issues similar to the ones experienced in South Africa. Slower growth in China has affected the international price of many of our export commodities negatively and led to a deterioration in our terms of trade.

Recently the IMF revised down its forecast for global growth from 3.7 per cent to 3.4 per cent in 2014. Many economies continue to perform below their potential, which will reduce the demand for our exports and therefore our ability to grow. The normalisation of monetary policy in the US is likely to increase borrowing costs for emerging economies, including South Africa.

However, the key challenges to economic growth in South Africa are domestic. The economy contracted by 0.6 per cent in the first quarter of the year, as mining and manufacturing production fell sharply, and growth in other sectors remained modest.

Due to the strikes in the platinum sector and maintenance of petroleum refineries, the mining and manufacturing sectors - which together account for roughly 20 per cent of GDP - contracted by 24.7 and 4.4 per cent respectively in the first quarter.

Supply side disruptions have plagued the domestic economy over the last couple of years, weakening confidence and reducing the level of investment and household consumption. Private investment grew by only 1 per cent in first quarter of 2014, while private household consumption recorded modest growth of 1.8 per cent.

The growth of the South African economy is not sufficient to address our challenges of poverty, inequality and unemployment. Too many people remain without jobs. The most recent Quarterly Labour Force Survey shows that the unemployment rate in the country has climbed to 25.5 per cent.

Despite weak economic growth, consumer inflation is rising and is currently at 6.6 per cent, above the SARB target range. This poses a significant risk to the purchasing power of consumers and the cost of doing business in the country. The outlook for inflation has led to the SARB starting an interest rate hiking cycle.

But these challenges are domestic and thus, within our control. We cannot change US monetary policy or dictate how Europe addresses its economic problems and the current crisis in Ukraine. However, we have direct control over the shortages of electricity, over our labour relations and over our policies. We can change the destiny of our country if we work together.

The performance of our economy, the number of jobs created is not only a responsibility of government, but a responsibility of all of us.

The National Development Plan outlines policies and actions, which place us in a stronger position to address our domestic challenges, and so does the announcement in June by President Zuma of the various measures that have to be taken to jump-start the economy.

These interventions will allow us to take advantage of the many opportunities facing us.

- We are investing heavily in infrastructure to release bottlenecks in the economy, which are preventing us from producing and exporting. The 2014/15 budget has committed R847 billion over the next three years to address infrastructure backlogs to accelerate public infrastructure investment as part of the Presidential Infrastructure Coordination Commission's, National Infrastructure Plan. This will help to take advantage of the preferential access that South Africa has to European and US markets.
- We are opening new universities to increase the number of high skilled South Africans, which will help us reduce our skill shortages.

- The green economy and the ocean provide new sources of economic activity, cheap energy and jobs. We are exploring ways to maximise these opportunities by providing a regulatory environment supportive of private investment.
- The suite of industrial incentives has also been increased and adapted to cater for the varying needs of businesses, including process improvements, machinery upgrades, industrial finance and export promotion.
- Government understands the importance of small and medium-sized firms for economic growth and job creation and has allocated R6.5 billion to fund small and medium-sized enterprises, while at the same time improving the tax regime facing SMMEs.

I would like now to tell you a bit more about how the financial sector and regional integration can support growth and job creation.

Africa and financial markets

Indeed, it is fitting that I stand here today to speak to you about South Africa's role in Africa. This university was a true champion of our future as a country and our future as a continent.

This university trained the future intellectuals of Africa. Taking the knowledge they gained here, they went out and transformed the countries they came from.

In just one generation, Africa has completely transformed itself. The benefits of increasing levels of education, improved health care, and the managed liberalisation of economies has opened up truly remarkable new opportunities, unlocked growth and set us as Africans on a prosperous path.

Indeed, over the past two decades, South Africa's economic prosperity has become increasingly intertwined with that of the rest of the continent.

Economic growth in sub-Saharan Africa is expected to exceed 6 per cent in 2014. Africa's share of global foreign direct investment is rising.

These trends contribute to a virtuous cycle of increased investment and economic growth, supported by growing consumer demand for goods and services. In contrast, wage and consumption growth has stagnated in Europe and the United States.

In 2013, the rest of Africa accounted for over 15 per cent of our dividend receipts and over 20 per cent of our exports. Indeed, the narrowing of the current account deficit is due, in part, to the strong growth in dividends that our dynamic companies are receiving from their investments around the world, but particularly Africa.

Moreover, South Africa is a favoured hub for international companies wanting to expand into Africa. Growth has been pronounced in dynamic sectors with high growth potential, including technology, telecommunications, financial services and retail.

Government is committed to supporting the expansion of South African firms into the rest of Africa, which will be mutually beneficial and bolster long-term growth prospects on the continent. It will provide tax revenue, profits and dividends into the receiving country and to South Africa.

South Africa provides a number of natural advantages as an African hub, including advanced financial, regulatory, tax and accounting standards; a modern telecommunications network; extensive economic infrastructure; and direct air connections to most major cities on the continent and internationally.

Indeed, the transformation of our continent marches forward. The economy of Nigeria is now larger than that of South Africa. Of course, given the relative population sizes, we remain far ahead in terms of per capita GDP.

And of course, their success is fantastic for us – it brings new trade opportunities for our firms, opens up new markets and contributes to the growth of the African economy.

Yet, the success of Nigeria, and the success of other African countries should also serve as a warning.

Economic success is much like success in football. One year you are Spain, beating Holland, and grabbing the trophy. The next time, you let in five goals! You can't even make it into the second round!

Today, I have been privileged to spend some time in your province. This morning, I visited the Mercedes-Benz factory to see the construction of the new C-class. It is indeed wonderful to see how our country has been chosen to build this new car. Mercedes could have chosen anywhere, but they chose here. The reasons are obvious and include the company's well-established presence in the country and support from Government.

Next time, we may not be so fortunate. The next C-class might be built elsewhere.

Just like Spain can win one World Cup, and lose the next, so too, we need to keep fit, keep alive to the global realities, and we need to keep on working hard at keeping our country ahead.

Investment climate

To continue to attract firms such as Mercedes-Benz to our country, we must take clear steps to improve the investment climate. The National Development Plan sets out a clear vision. To achieve this vision, requires a combination of carefully thought through, interlinked policy initiatives. These include:

- Modernising our approach to tax policy – the Davis Committee are currently considering ways to improve our tax system.
- Ensuring we remain top of the world in financial regulation – we are in the process of implementing new reforms to ensure we maintain our leadership in this area.
- Creating more competition in our markets for goods and services
- Bringing policy certainty and investor protection.

South Africa must stay ahead. We must work harder and smarter. We cannot rely on the star companies of yesterday if we want to win tomorrow. Our compatriots in Africa have raised their game. They are implementing economic reforms, building infrastructure, educating their people, and building winning nations.

We must do the same, and in the National Development Plan we have a game plan for success.

You, the students at this university, can achieve this dream of ours.

Study hard; study widely; think; learn; achieve.

It may seem like an impossible mountain to climb. But to inspire you, let me echo the words of your alumnus, Tata Madiba.

'It always seems impossible until it's done.'

Thank you