

Growth becomes the overriding priority

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Seldom has such an abundance of unbridled joy been witnessed amongst South Africans from all walks of life than after the Rugby World Cup final in Japan.

A magnificent victory for the rainbow nation by a team that represents the kaleidoscope of cultures of Africa's finest, most diversified and most modern society – well done to the Boks to lift our spirits!

The first weekend of November will also be remembered for the lifeline provided to the economy by international ratings agency Moody's Investor Services, which maintained the investment grade status of South Africa's sovereign bonds.

As widely expected, however, the risk outlook for the country's bonds was changed from stable to negative, which means that government only has a couple of months to provide a realistic plan for stabilising the fiscal position.

Bleak outlook in the mini-Budget

It became clear when Finance Minister Tito Mboweni presented the traditional mini-Budget to Parliament at the end of October that South Africa's public finances had deteriorated since the February Budget was tabled, mainly due to insufficient tax revenues. The latter, in turn, has been the result of lethargic economic growth in the face of low levels of demand.

The South African economy is still struggling to recover from almost a decade of pathetic economic management and the decimation of corporate governance standards in the public sector under Mr Jacob Zuma's administration.

Added to this unfortunate scenario was a trend towards market-unfriendly policies, which predictably led to a decline of business and consumer confidence in South Africa. The latter also manifested itself in lower levels of capital formation, reducing the economy's output potential.

Growth desperately needed

Whilst it is certainly true that South Africa's government spends too much, especially on salaries in the public sector, it would be a mistake to approach the fiscal dilemma only from the perspective of expenditure cuts. What is required as a matter of urgency is a commitment from all the key stakeholders in society to support the new growth plan of National Treasury.

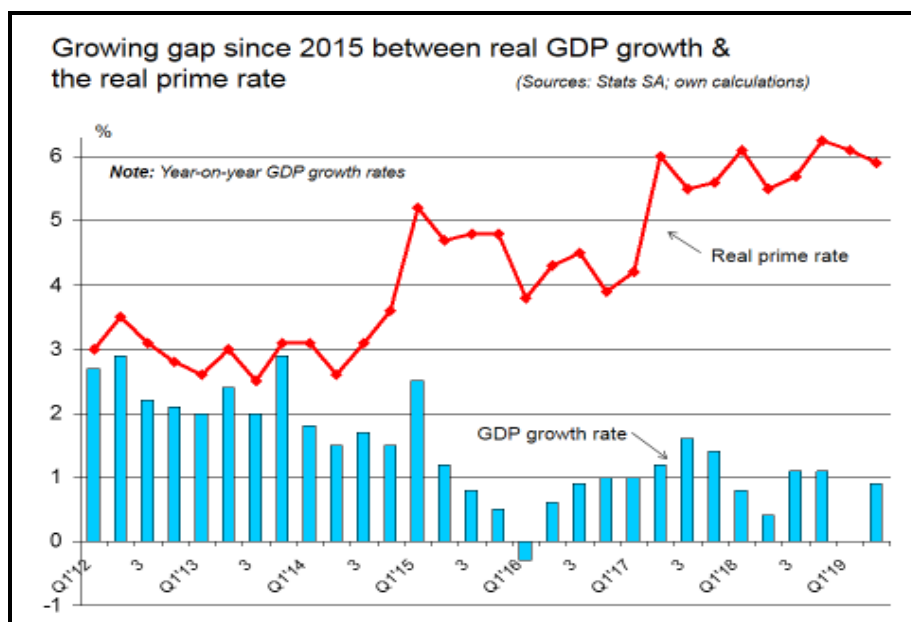
Pres. Cyril Ramaphosa has a unique opportunity to galvanise support for policies aimed at creating jobs in the short to medium term from the country's citizens at large, now that the morale has been lifted by the victorious Springbok rugby team.

The advantage of a successful job creation strategy lies in its immediate positive effect on demand and on fiscal revenues – as soon as a job is created, SARS benefits via a host of direct and indirect taxes, which serves to broaden the tax base.

An additional bonus lies in the obvious possibility of utilising these “new taxes” to assist with the financing of infrastructure projects, including maintenance. The latter expenditure invariably involves private sector activity and exercises a strong multiplier effect on value added in the economy.

High cost of capital

It has also become a matter of urgency for the Monetary Policy Committee of the SA Reserve Bank to lower interest rates. Since the retirement of the previous governor, Gill Marcus, the real cost of capital (and of credit) has increased by almost 100%, which represents one of the main reasons for the country’s lethargic economic growth rate over the past four years.



Fortunately, a welcome recovery in the growth trends for a number of key indicators of economic activity occurred during the second quarter of 2019, which signals a measure of confidence in the market reforms promised by Pres. Ramaphosa.

A freeze on public sector salary increases, combined with lower interest rates and the removal of obstacles to entrepreneurship will almost certainly lead to higher growth and assist in stabilising the country’s fiscal position.