New *Economic Growth Plan* could do the trick

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA *2 September 2019*

During the last week of August, finance minister Tito Mboweni grabbed the headlines with the release of an economic policy document that outlined National Treasury's vision to lift the country's economic growth rate.

Economists and business leaders have reacted positively to the policy document, which will remain open to discussion and comment for several months to come. It is titled: *The Economic Transformation, Inclusive Growth and Competitiveness Plan* and an apt short title is simply *The Economic Growth Plan*.

The publication of this document was most welcome after the finalisation earlier in August of two pieces of legislation that received substantial criticism from the business fraternity in general and the affected sectors in particular.

These were the National Health Insurance (NHI) Bill and the National Credit Amendment (NCA) Act, the essence of which stands in sharp contrast to the underlying philosophy of the new *Economic Growth Plan.*

Both of these two pieces of legislation represent a top-down approach with some elements of populism that more or less ignored the opinions of business leaders and industry representatives during the process of considering and drafting the legislation.

It is not surprising that both of these bills led to a decimation of the share prices of South Africa's largest banks and JSE-listed healthcare companies. Investors are clearly nervous over the potential negative business impact of these bills.

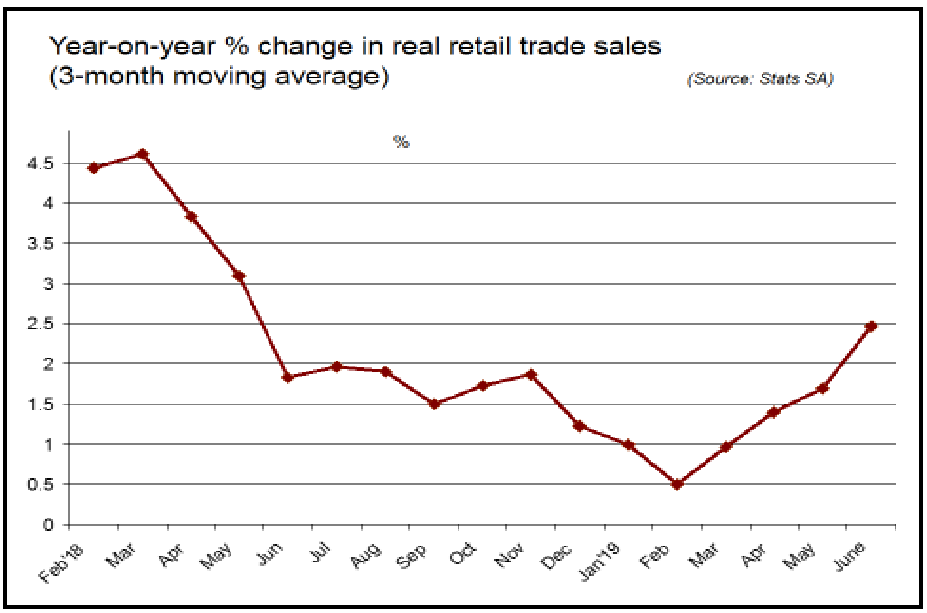
In sharp contrast, the *Economic Growth Plan* fits the mould for evidence-based economic transformation aimed at prioritising higher growth and employment creation. Ten characteristics of this quite pragmatic strategy that have caught the eye are:

- The easing of visa rules to attract more tourists from overseas
- Prioritising labour-intensive growth
- Privatisation of certain Eskom power plants
- Implementing focused and flexible industrial and trade policies
- Reducing high-level skills shortages by easing immigration requirements
- Allocating broadband spectrum to private companies
- Changes to banking and telecommunications rules to encourage competition
- Increased support for the agriculture, manufacturing and tourism industries
- Harnessing growth opportunities in sub-Saharan Africa
- Full or partial exemptions from labour laws for SMEs

Virtually all of the comments from the economics fraternity and authoritative research agencies have emphasised the urgent need for deregulation, which is certainly addressed in the *Economic Growth Plan,* but still requires Cabinet approval. It is also encouraging that National Treasury has demonstrated in no uncertain terms its commitment to Pres. Ramaphosa's promises of market reforms – within four months after the May elections.

The gauntlet has now been thrown at the dissidents in the ANC (the so-called "Zupta-camp") to provide alternative strategies that can combat unemployment. This will be nigh impossible, given the dismal failure of the move towards excessive bureaucratic control over the economy that was a feature of the Zuma-era.

Timing is now rather important. In the event of a speedy implementing of a measure of deregulation aimed at incentivising private sector capital formation, an excellent chance exists for the current growth trajectory of the retail trade sector to continue and even increase.



At a value well in excess of R1 trillion, retail trade sales have traditionally provided an accurate barometer of the GDP growth trajectory. As at June, the year-on-year growth rate for real retail trade sales (3-month moving average) stood at 2.5%. Mr Mboweni's objective of lifting the country's economic growth rate by between 2% and 3% could therefore be achieved quite soon.

Not only will this demonstrate the success of market reforms and secure fiscal revenue targets, but it will also serve to reduce the waning influence of militant trade union leaders and the Zupta-faction within the ANC.