5 pillars for better economic prospects in SA

By Prof Raymond Parsons

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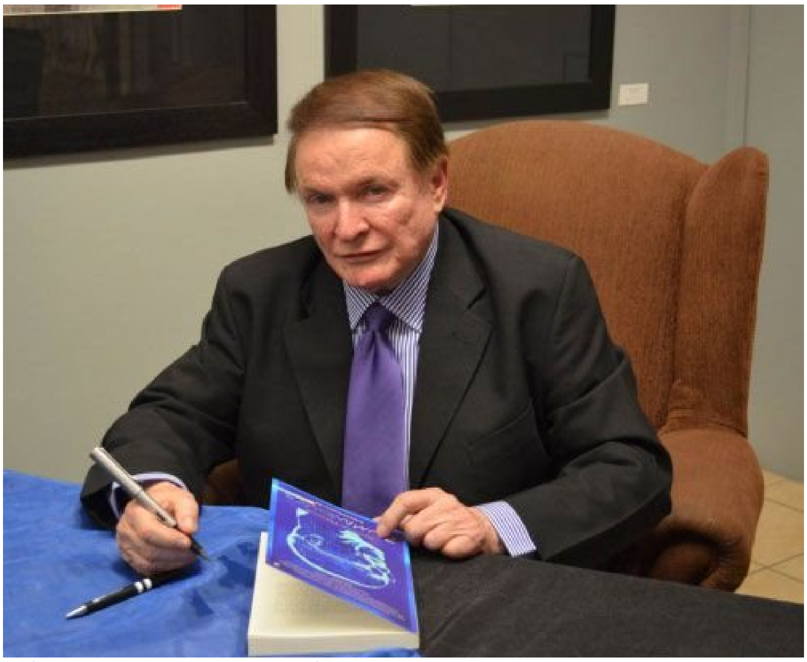
The combination of economic and political developments over the past 12 months in SA has generated particular interest in the outlook for the economy in 2020. What are some of the relevant factors to be taken into account as the next year unfolds? 2019 was the year in which the bad news about the economy outweighed the good news. Consequently, SA's GDP growth rate too often found itself in negative territory during the year.



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More recently, the poor GDP growth of -0.6% in 3Q 2019 was followed in 4Q 2019 by weak manufacturing and mining data, sagging retail turnovers, meagre new vehicle sales, as well as continued low business confidence. These trends suggest that SA will struggle to even reach the previously revised generally low forecasts of 0.5% growth for 2019, a growth rate which may now in fact yet fall lower. With the present and future impact of the renewed Eskom load-shedding in December 2019 also still to be fully assessed, economic growth forecasts are being reduced all round.

Inadequate growth

Indeed, some economists even believe that the SA economy may well again have swung into a 'technical recession' (two successive quarters of negative growth) in the second half of 2019. Growth in 2020 is in any case likely to be only about 1%, rather less than the 1.4%-1.6% range expected earlier by the SA Reserve Bank (SARB) and other economists. Growth at these low levels is widely recognised as completely inadequate if SA is to successfully meet the overarching challenges of unemployment, poverty and inequality.

Another serious overhang between 2019 and next year is the vulnerable state of SA's public finances. Weak growth has hit tax revenues badly. But the Medium Term Budget Policy Statement (MTBPS) in October 2019 also frankly and realistically acknowledged that unless more progress is made in reducing the cost-drivers of government as well as of state-owned enterprises like Eskom and SAA, SA was in serious danger of falling into a 'debt trap'. Despite the agenda of remedies proposed by the MTBPS, they fell far short of preventing strongly escalating public debt trends up to 2022/23.

The highly negative public debt outlook in SA thus presents policy-makers with tough choices next year, but some choices cannot be avoided or even postponed beyond 2020. The fiscal situation requires germane and timely domestic policy action. Borrowing repetitively to finance consumption expenditure can only make SA poorer in the long run. It also saddles future generations with the burden created by present fiscal laxity.

Positive news

The good news is that inflation has declined to well within the target range of 3%-6%, with the onus now clearly on the Monetary Policy Committee (MPC) of the SARB to explain why it cannot reduce interest rates at its next meeting in January. The rand has strengthened considerably towards year-end thanks mainly to global factors, with the prospect now of lower petrol prices. SA had a successful foreign loan flotation in September 2019. Export performance seems to have been sustained. Summer rains have also been positive for several regions in SA, which is promising for agricultural output next year.

And as 2019 draws to a close, growth forecasts for the world economy in 2020 have also stabilised around 3.3%, although downside risks still exist. Global financial markets have finished the year on a high note as the immediate risks of a US-China trade conflict and uncertainties around Brexit have receded. Growth in Sub-Saharan Africa is expected to average about 3.5% next year. Nonetheless, SA's domestic economic outlook for 2020 remains a tough and sombre one, with poor growth prospects.

Economic growth in SA has virtually flat-lined. The International Monetary Fund (IMF) recently confirmed that the SA economy would experience 'sluggish growth in 2020 - below population growth for the sixth consecutive year'. The contours of the economic and financial landscape in SA therefore dictate that a pivotal year lies ahead for the economy, if economic recovery is to be fostered, more jobs created, public finances brought under control and business confidence lifted.

That said, there are at least five broad pillars on which better economic prospects might be built in 2020 if there is a pro-active approach:

1. A greater sense of urgency is generally required in official decision-making, especially about Eskom

Although several reform policies and new projects have been announced, a much greater sense of urgency is generally required in official decision-making. Pro-growth reforms must be expedited for SA to break out of its current 'low growth trap'. Time is now of the essence. The possibility of more Eskom load shedding in particular continues to pose a serious threat to SA's economic performance, especially once normal business activity resumes next month. Security of electricity supply remains an urgent and immediate priority for the economy and business confidence.

2. SA can no longer follow a 'policy as usual' approach

Both the State-of-the Nation Address (SONA) and the Budget in February must demonstrate that the tough decisions still needed to turn the economy around are being taken, and will indeed be implemented. The 2020 SONA must not only catalogue current 'work-in-progress' but must also convey a coherent sense of economic direction for SA. The newlyappointed Economic Advisory Council (EAC) could play an early and useful consultative role here. Yet there are no miracle recipes. What is required for the Budget, for example, is a return to the basic principles of fiscal discipline and sound budgetary planning. The dependency of state-owned enterprises (SOEs) on government funding and bailouts must be drastically curbed. The mounting levels of overall public debt need to be steadily wound down. Generally speaking, just as it can no longer be 'business as usual' in SA, neither can it be 'policy as usual'. Political factionalism within the governing ANC party will therefore also need to to be successfully managed in the interests of consistent policy-making.

3. Strengthen implementation of policies and projects

A lack of effective implementation must cease to be the Achilles heel of SA's economic performance. A useful platform early in 2020 which focuses on implementation is the next Business Unity South Africa (Busa) 'Business Economic Indaba' with government on the pertinent theme of 'Activating actual outcomes' in mid-January. An intensive collaborative effort between the public and private sectors continues to be required to help overcome entrenched constraints on growth and reform. Not government, nor business, or labour can tackle this on their own.

4. Well-known steps to reduce policy uncertainty and boost investor confidence

To reduce policy uncertainty and boost investor confidence a clear and consistent sense of direction ought now to emerge in 2020 around the drivers of economic growth. The National Treasury's growth plan published in August 2019 urged that the fundamentals of inclusive growth, economic transformation and competitiveness be strengthened now to reap tangible benefits later. The oft-repeated steps that would help to promote such economic recovery in SA include steadily implementing promised job-rich growth measures, credibly reorganising SA's public finances, speedily stabilising and restructuring Eskom, urgently accelerating infrastructural projects and purposefully anchoring good labour relations.

5. Need for strong political leadership and skillful economic steersmanship

There also remains Moody's pending decision on SA's investment rating hanging like the Sword of Damocles over the economy and the more-than-even chance of SA descending into total junk status next year. A narrow window of opportunity nonetheless still exists in the months ahead to avert such a 'worse case' scenario. Overall, 2020 remains a critical fork in the road towards SA's challenging goal of a bigger, stronger and better economy, which will require strong political leadership and skillful economic steersmanship to successfully manage it.

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