EFFICIENT GROUP Weekly Economic Newsletter

Contact Us

81 Dely Road
Hazelwood
Pretoria
0081

+27 (12) 460 9580

info@efgroup.co.za

www.efgroup.co.za

ECONOMIC COMMENTARY - By Francois Stofberg

Down, but not Out

This week Statistics South Africa (STATSSA) finally released South Africa's 2016, 4th quarter GDP figures. As we expected it was dismal, to say the least. SA's economy only grew by 0.3% in 2016, a far cry from the global average of 3.6%, and even worse if we measure ourselves against other developing countries. What was a bit of a surprise being the - 4.6% contraction in the mining sector – political uncertainty is the favoured cause, chosen by many economists to explain the unexpected contraction. I think I've spent enough time elaborating how SA's economy is stuck in a rut of structurally low growth, because of a deterioration in economic fundamentals, here's another view and maybe even something to look forward to.

The legendary economist John Maynard Keynes had a theory, economies could be stimulated out of recessions (almost like where SA is at currently) by allowing governments to spend more (and central banks to reduce interest rates, which ties in nicely with last week's newsletter). This is usually where politicians and career bureaucrats stop reading, especially in South Africa. What Keynes actually said was that more should be spent on infrastructure (similar to what Trump is trying to do in the US, and exactly what successful Asian countries have been doing over the last couple of decades), to aid the private sector. Keynes did not imply that governments should simply spend for the sake of it, and especially not just spend excessively on social upliftment. What Keynes further implied was that spending should be efficient and well administered (thus his focus on supporting the private sector), not wasted – also not something the South African government is very good at. Except for some of the obvious shortcomings of Keynes' theory, keeping to the basics of his theory – spending effectively, and spending on infrastructure – can already do a lot to help SA creep out of its rut.

I'd also like to re-iterate the growth we expect to see come from the agricultural sector in 2017. The two-season drought caused the sector to contract by - 6.1% in 2015 and - 7.8% in 2016. However, the lingering impact of the drought might be done away with and even just a recovery to pre-2016 levels will add 0.32% to this year's GDP. It is also reasonable to believe that the electricity, gas and water industry will bounce back from its 5-year contraction. Finally, with the minister's latest tax proposals even the contribution "taxes fewer subsidies" make to GDP at market prices, will most likely not contract again in 2017.

The downside to all this remains political stability. But, even here there might be some good news – both the president and the ANC must be on best behaviour. The president must be on his best behaviour if he wants to hold on to his power and thereby influence who will take over from him. Also, the ANC must be on best behaviour if they want to hold on to their votes and some other influential municipalities.

Although only structural reforms can grow the South African economy at levels that are needed to create sustainable wealth, and reduce unemployment and inequality for now we are only down, but not yet out.