



SA Government Policy & Economic Reality: Friends or Foes?

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What is the SA government's
main economic goal?



“Decent work for all”



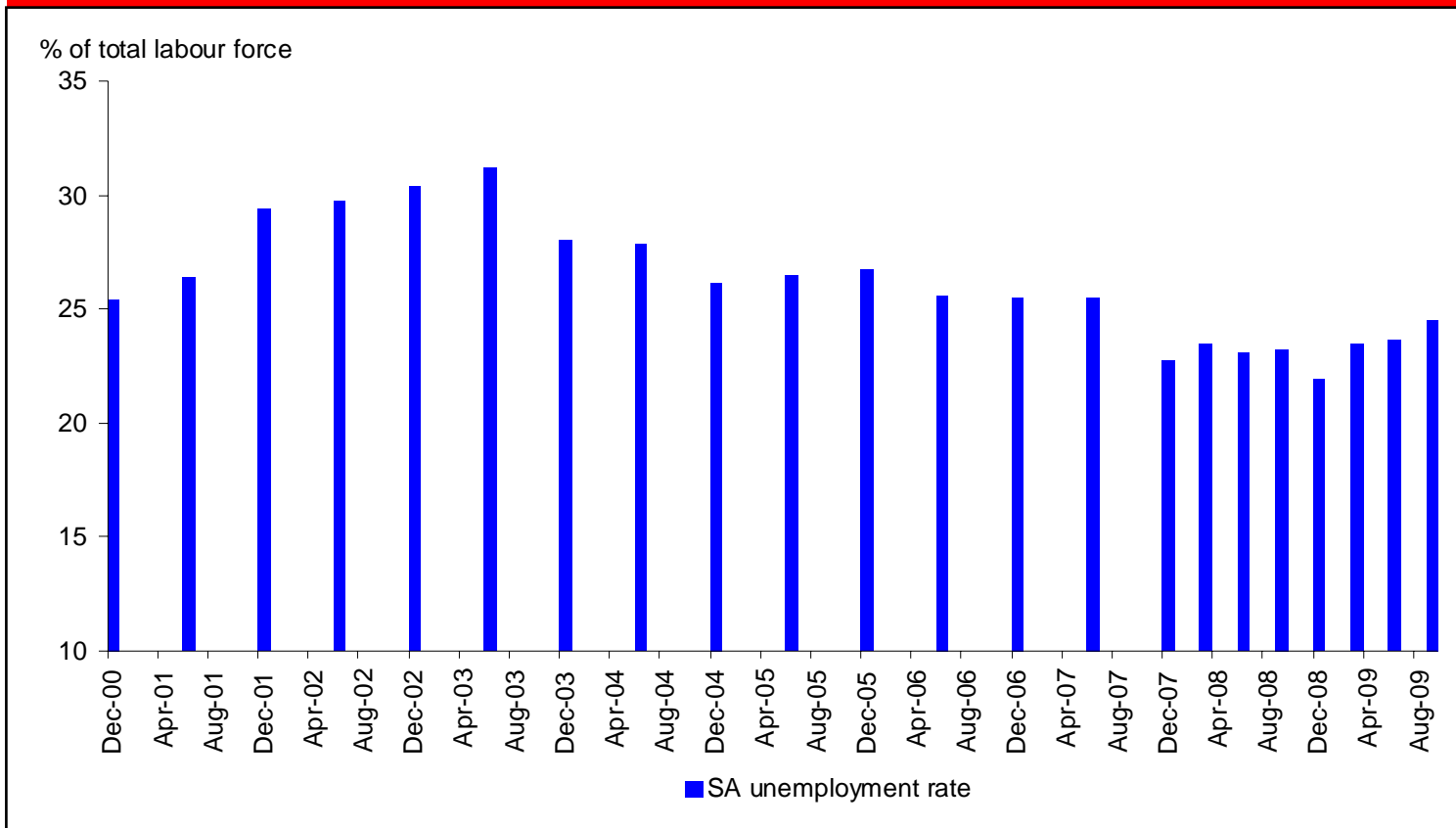
Unemployment: South Africa's biggest problem





Unemployment: South Africa's biggest problem

SA unemployment rate

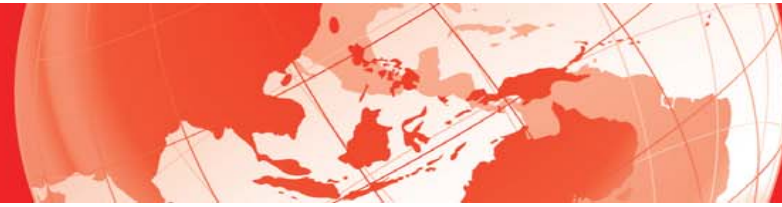


Significant job creation through 2002-2006 driven by domestic demand.

Source: Statistics SA, November 2009



1. Is a weaker exchange rate the solution?



Is the exchange rate the solution?

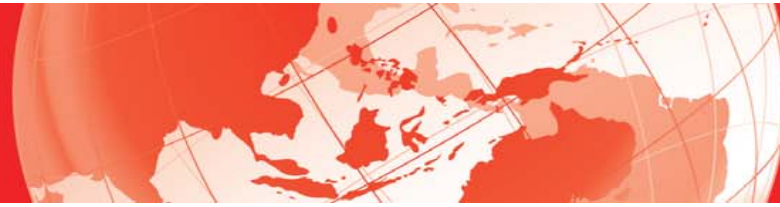
RMB/ZAR exchange rate



Rand has depreciated by 74% since January 1994.

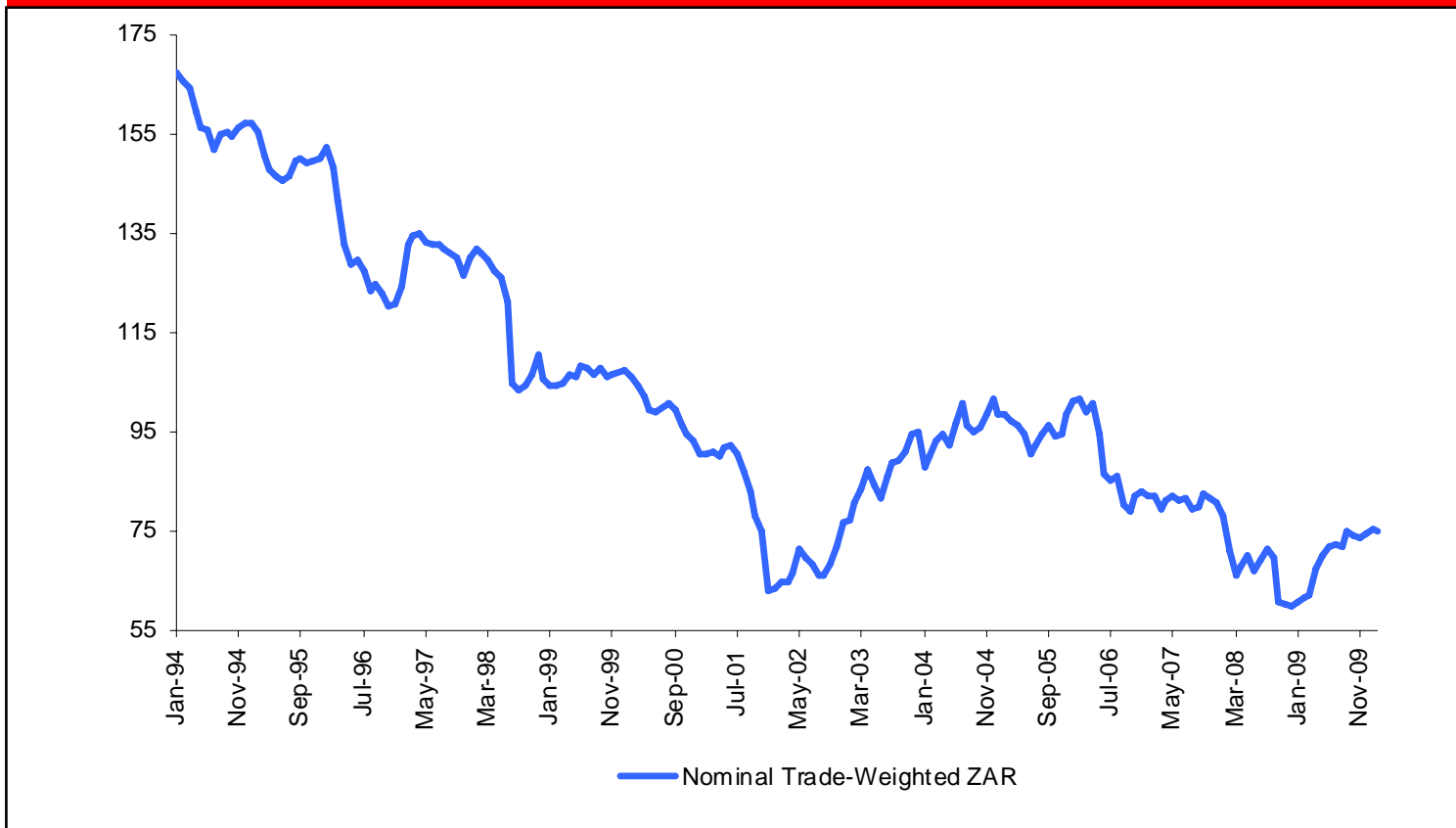
Its down 35% since 2005/2006.

Source: Bloomberg, Macquarie, March 2010



Is the exchange rate the solution?

Nominal trade-weighted rand



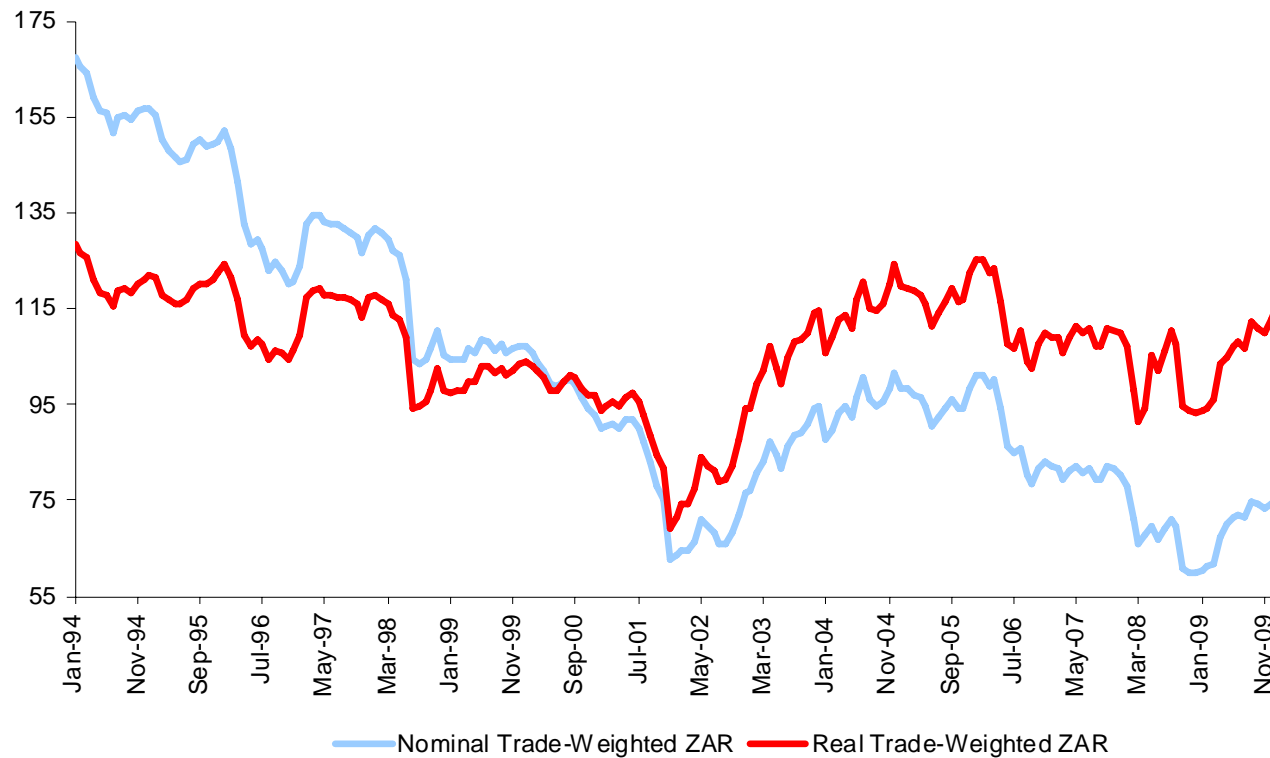
Rand 55%
weaker against
a basket of
currencies
since 1994

Source: Bloomberg, Macquarie, March 2010



Is the exchange rate the solution?

RMB/ZAR exchange rate

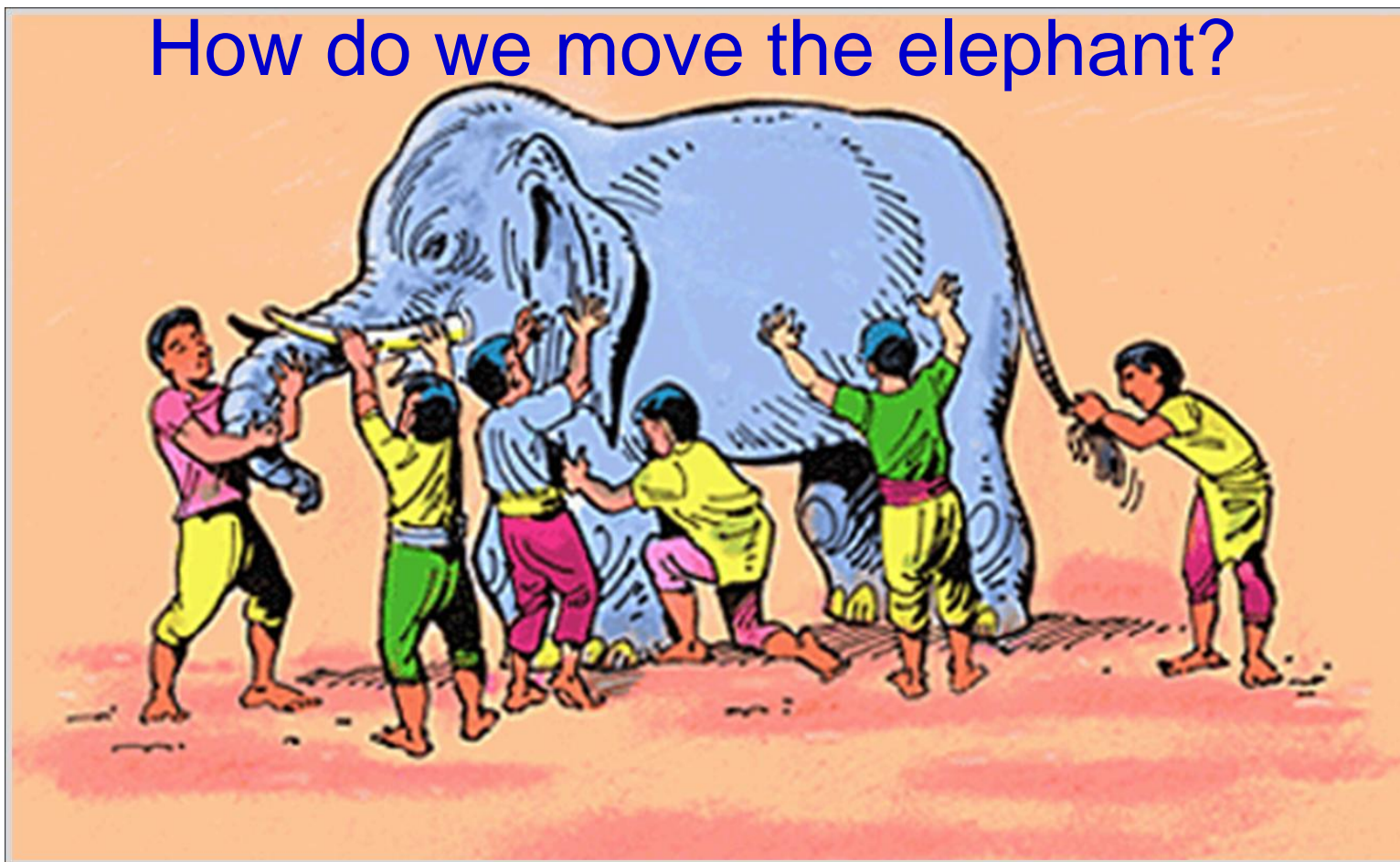


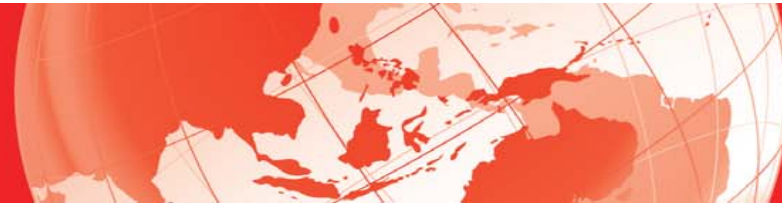
HOWEVER,
very little of the
benefit has
been
preserved.
Inflation has
eaten up much
of the benefit.

Source: Bloomberg, Macquarie, March 2010



What are the solutions? How do we move the elephant?





Keys to growth: South Africa

Basic requirements

- Institutions **Good**
- Infrastructure **Okay, but deteriorating**
- Macroeconomic stability **Mediocre**
- Health and primary education **Very, very weak**

Key for
factor-driven
economies

Efficiency enhancers

- Higher education and training **Okay**
- Goods market efficiency **Good**
- Labor market efficiency **Very weak**
- Financial market sophistication **Very good**
- Technological readiness **Good**
- Market size **Relatively weak**

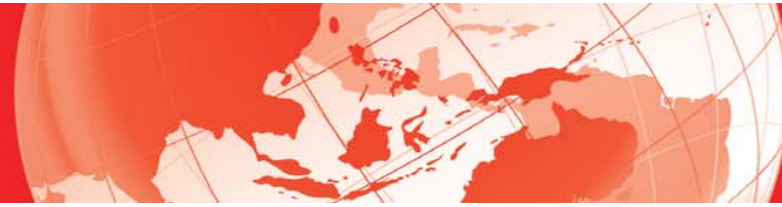
Key for
efficiency-driven
economies

Innovation and sophistication factors

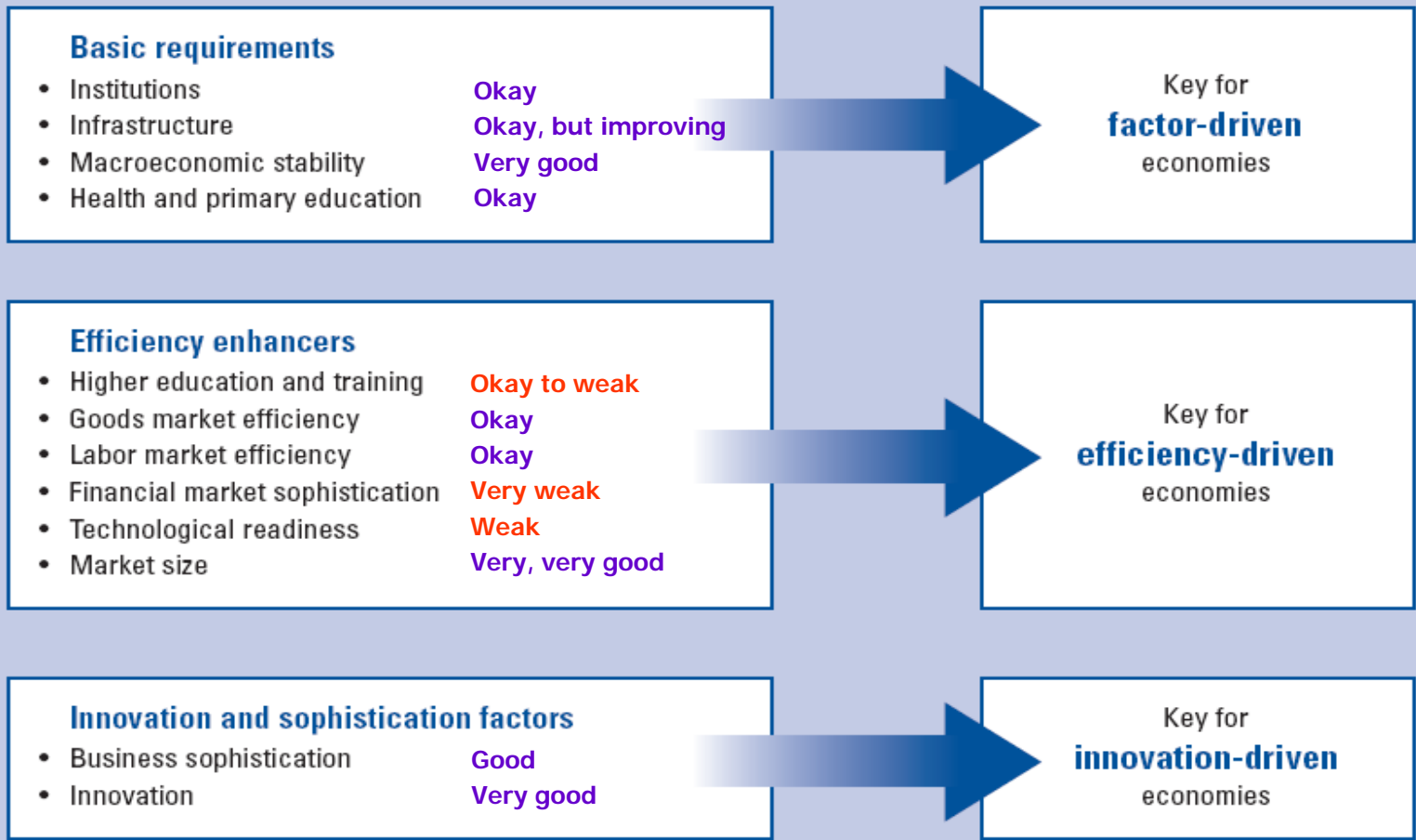
- Business sophistication **Good**
- Innovation **Okay**

Key for
innovation-driven
economies

South Africa scores far better on innovation & efficiency than it does on basic requirements!



Keys to growth: China



China scores far better on basic requirements - than it does on financial markets & technology!



Constraint #1: Infrastructure



Medupi Power Station:
Sept 2009

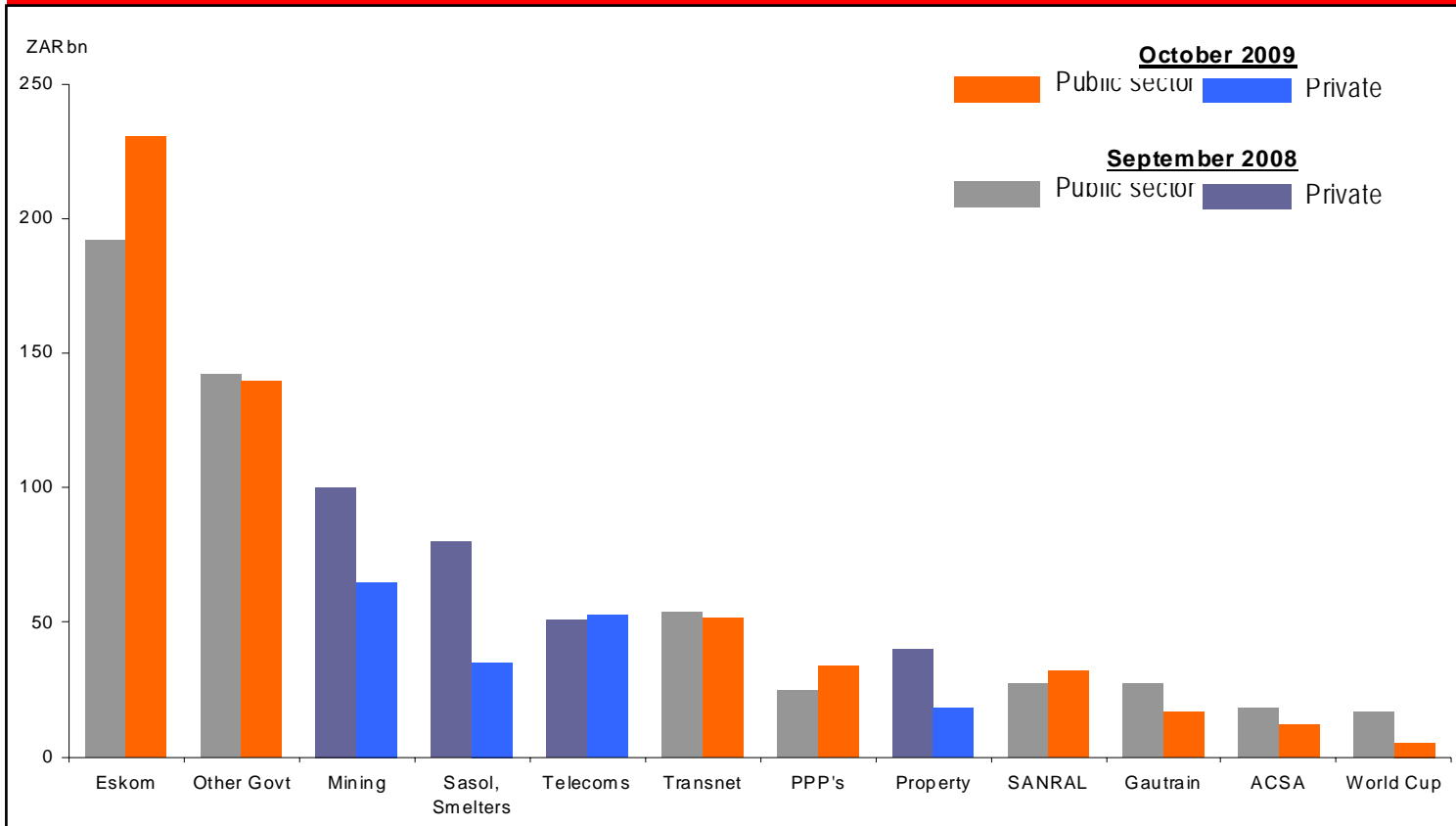


Gautrain viaduct to OR
Tambo: Sept 2009



Infrastructure outlook

SA 3-year infrastructure spending programme



Public sector to spend ZAR846bn in next three years.

Despite widespread concerns, there has been limited financial constraints to this build.

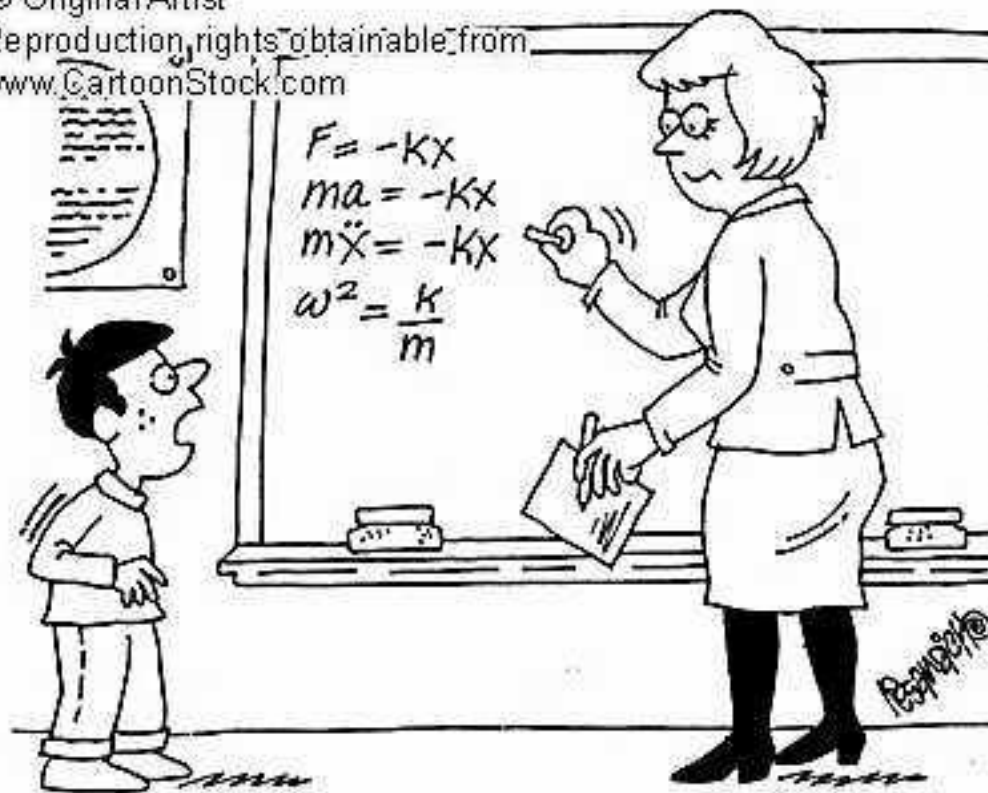
Source: SA National Treasury, Nedbank Capex Survey, Macquarie Research, March 2010

Constraint #2: Education

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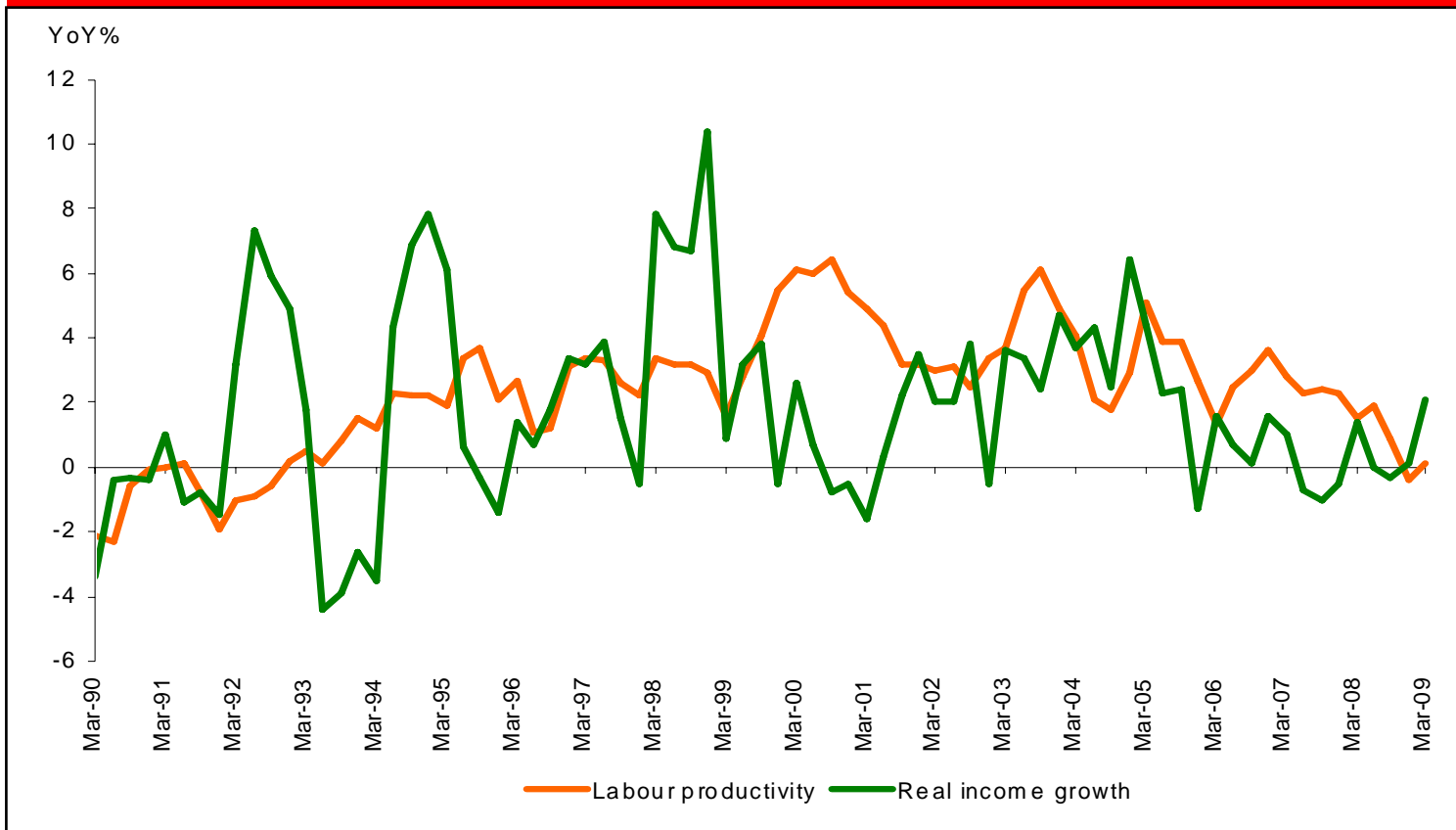
Responsible

"CAN WE 'DUMB IT DOWN' A BIT, MRS. WHIPPLETHORPE?"



Low productivity growth

SA labour productivity vs Real income growth, YoY%

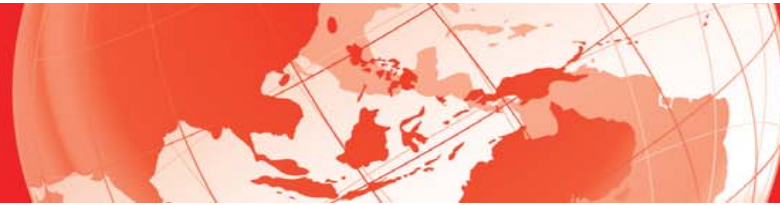


Real income growth has kept pace with labour productivity. Therefore SA entirely reliant on exchange rate for competitiveness gains.

Source: SA Reserve Bank, Macquarie, March 2010

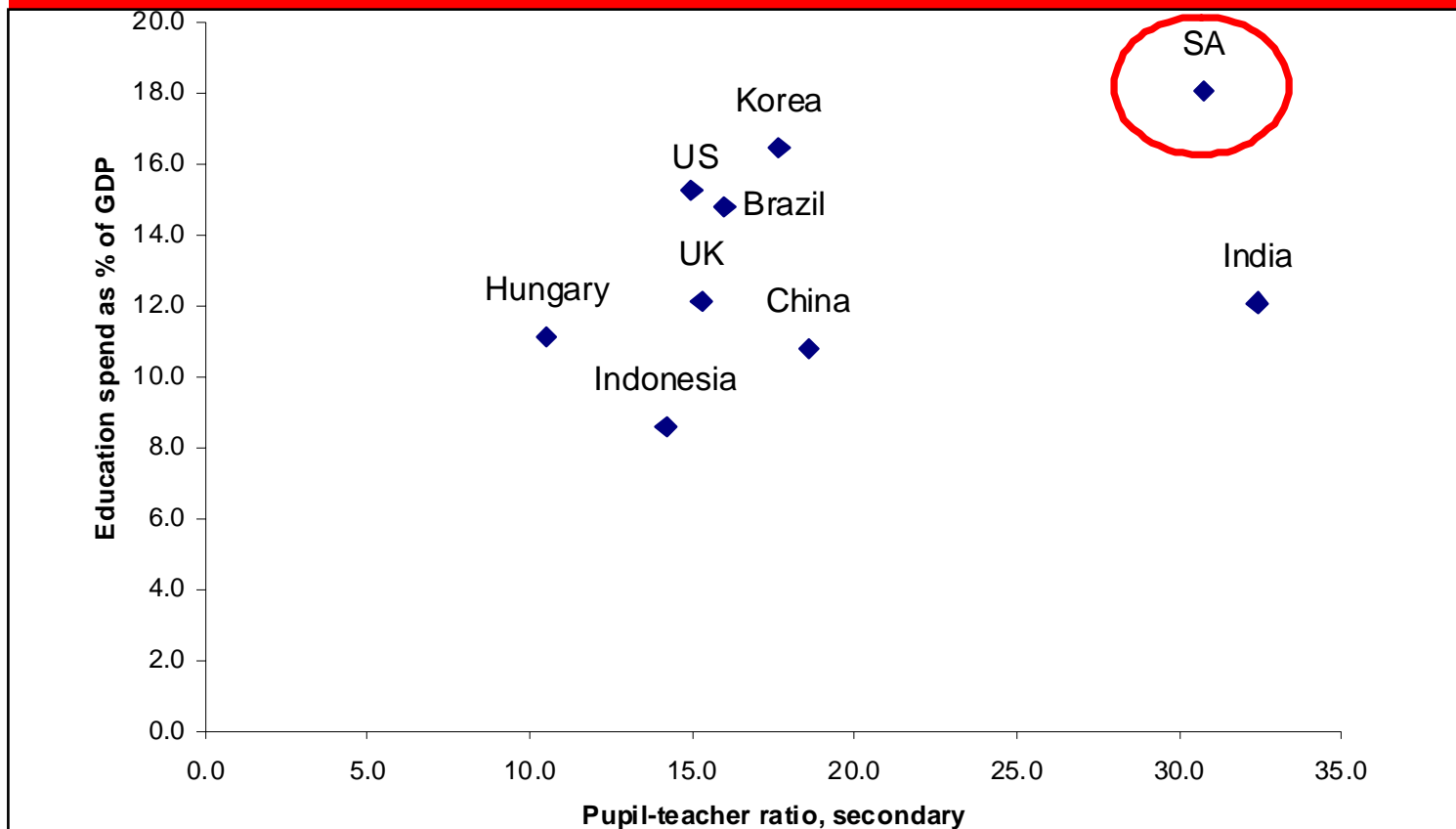


There is not an economic
constraint to better education!



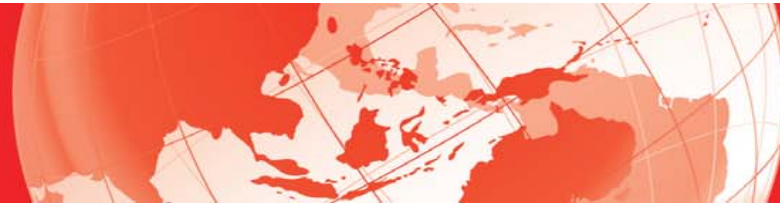
Education constraints

SA gov't spending vs pupil-teacher ratios



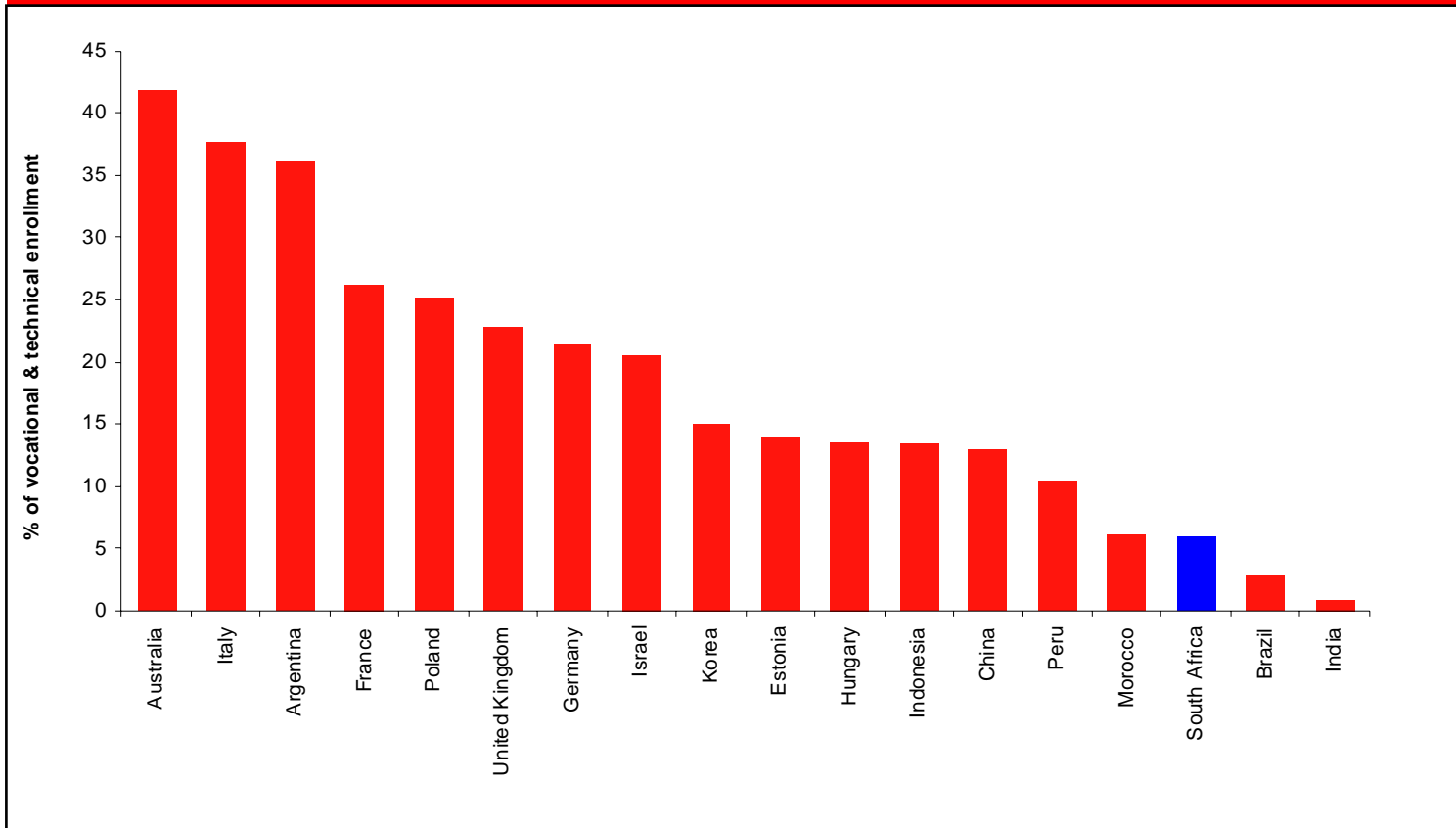
Money is not the main constraint.
Poor quality teachers & lack of teacher discipline and preparedness are far bigger issues.

Source: World Bank, Macquarie, March 2010



Education constraints

Vocational & technical enrollment



More focus on
developing
useable skills is
needed.

Source: World Bank, Macquarie, March 2010



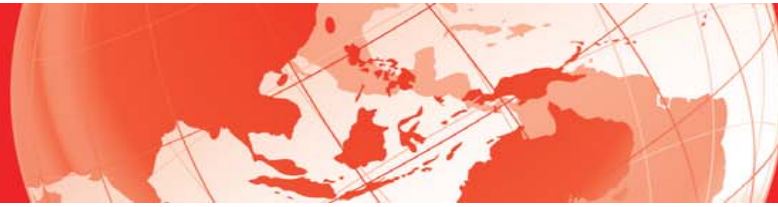
Constraint #3: The labour market



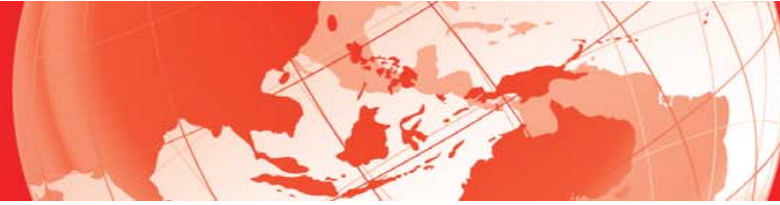


Main issue is difficulty of firing
workers.

Treasury attempting to address
with wage subsidy.



.....this brings us back to:
“Decent work for all”



Perhaps make sense to
concentrate on:
“Work for all”
in the short-term



Conclusion: Limited economic constraints

- South Africa's single biggest problem is unemployment
- A weaker real effective exchange rate is a necessary but NOT sufficient condition
- South Africa needs to URGENTLY address four other areas:
 - Labour market flexibility
 - Bureaucratic red-tape, especially for small businesses
 - Infrastructure
 - Education – both basic education & usable skills development
- Commitment to progress is only evident on one of four
- Economic constraints are not major obstacles on any of these four!



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