POCKET GUIDE TO SOUTH AFRICA

ECONOMY

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Statistics South Africa announced in May 2011 that the economy showed growth of 4,51% in the first quarter of 2011. Parallel to the anaemic growth of the advanced economies, economic activity in the developing economies also registered a slower pace of increase in the second quarter of 2011. Following the brisk rate of economic expansion recorded in the first quarter of 2011, real growth in the South African economy slowed substantially in the second quarter to an annualised rate of 1,3%.

Growth was expected to be 3,4% in 2012, rising to just over 4% in 2014 and 2015.

New Growth Path (NGP)

The NGP sets out a vision for creating a competitive, fair and socially cohesive economy. The NGP puts employment at the centre of economic policy. It identifies how greater efficiencies can be achieved in the economy, and the investments needed to create an advanced, 21st-century infrastructure. The NGP is expected to create large-scale, sustainable jobs in key sectors through a collaborative approach. This will encourage trade, innovation and economic growth of up to 7% per year – ensuring South Africa remains at the forefront of fast-growing emerging economies and an attractive investment destination.

South Africa is open to increasing trade and investment among the Brazil-Russia-India-China-South Africa countries, being a viable emerging market with potential as an innovative hub, a sound investment destination and a leading emerging market economy.

By August 2011, government had created thousands of jobs, including:

South Africa's ascension to the Brazil-Russia-India-China (BRIC) grouping is recognition of the country's potential and places it alongside leading economies of the future. South Africa's economy is smaller than those of Brazil, Russia, India and China, but it is also the gateway to the African continent, linking the BRIC economies to more than a billion consumers. Africa is the fastest-growing region after China and India. South Africa is the 27th biggest economy in the world, with a gross domestic product that the International Monetary Fund puts at US$354 billion.

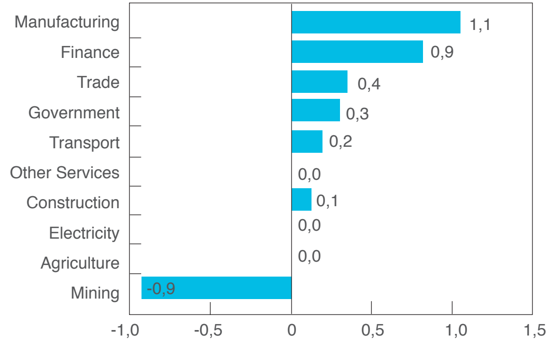
- almost 60 000 jobs created by the Department of Trade and Industry's support and incentive programmes in 2010/11
- the support of over 100 000 smallholder farmers by the national and provincial agricultural departments
- environmental employment schemes, such as the Department of Water Affairs' Working for Water and the Working for Land programmes, which were expected to provide over 30 000 full-time job equivalents in 2011, and doubling to 60 000 in 2011
- a rural youth-employment programme, which had created 7 500 jobs.

The NGP is not isolated from other government initiatives such as the Industrial Policy Action Plan II (IPAP II) and various infrastructure programmes that will lead to job creation, which is the central focus of the NGP. These include:

- addressing the country's ageing water and sanitation infrastructure, which requires R10 billion over the next five years
- replacing commuter rail rolling stock at a budget of about R89 billion, to be accompanied by the recapitalising investment in related and auxiliary infrastructure
- redressing South Africa's modal imbalance of freight as an attempt to increase rail capacity and rail-use capacity – Transnet has budgeted R35 billion

Contribution to growth in real gross domestic product in the first quarter

Percentage points



Source: *Quarterly Bulletin, June 2012*

- arresting degradation of the non-toll road network (140 000 km of the total 750 000 km need to be maintained) will require R75 billion in the next few years
- Eskom plans to spend R550 billion in capital expenditure until 2017 and has to create an additional 50 gigawatts by 2025.

Framework for South Africa's response to the international economic crisis

The Department of Economic Development leads the implementation of the measures in the framework for South Africa's response to the international crisis.

The implemented measures included:

- The Industrial Development Corporation (IDC) established a R6,1-billion fund to assist distressed companies. By February 2012, the IDC had saved and created 26 309 jobs.
- The IDC established a jobs fund, financed through the issue of a R2-billion development bond, which the Unemployment Insurance Fund (UIF) purchased. Some R219 million of this R2 billion is included in the R6,1-billion fund for distressed companies. It was announced in February 2012, that the UIF would invest another R2 million in job creation.
- The department, together with the Department of Labour, the IDC and the Commission for Conciliation, Mediation and Arbitration, established a R2,9-billion training lay-off scheme, to provide for the training of workers as an alternative to retrenchment. By the end of January 2011, 6 351 workers had benefited.

Domestic output

The pace of real output growth in the South African economy slowed considerably in the second quarter of 2011.

Growth in real gross domestic product (GDP) excluding the volatile primary sector, also moderated steeply from an annualised rate of 5,5% in the first quarter of 2011 to 1,6% in the second quarter.

Domestic expenditure

Consistent with the moderation in domestic production, growth in real gross domestic expenditure decelerated from an annualised rate of 7,9% in the first quarter of 2011 to 1,3% in the second quarter.

In June 2011, National Treasury's R9-billion Jobs Fund, which aims to create 150 000 jobs over three years, was accepting applications from companies and non-governmental organisations with innovative job-creation projects.

The aim was to give R2 billion in grants in 2011/12 to those companies in the private sector that create jobs. The fund will run for three years and be administered by the Development Bank of Southern Africa (DBSA). The department chose the DBSA to administer the fund because of its footprint, which covers over 200 municipalities across the country and its experience in funding community development projects.

The fund targets established companies with a good track record and that plan to expand existing programmes or pilot innovative approaches to employment creation, with a special focus on opportunities for young people. The fund will target four areas, namely enterprise development, local infrastructure development, support for work seekers and institutional capacity-building.

Real inventory investment slowed while real gross fixed capital formation accelerated meaningfully over the period. Following a robust increase of 5,2% in the first quarter of 2011, growth in real final consumption expenditure by households slowed to an annualised rate of 3,8% in the second quarter.

Price inflation

Twelve-month headline consumer services price inflation decelerated to within the inflation target range in July 2010, moderating in subsequent months to 4,5% in February 2011, before rising to 5,5% in July 2011. In the consumer services basket, price increases in the health, transport and education categories exceeded the upper limit of the inflation target range in July 2011.

Changes in food prices at the manufactured level reverted to inflation from November 2010 and continued to climb in ensuing months to the level of 6,3% in July 2011.

At agricultural level, a period of producer food price deflation lasting 26 consecutive months, made way for inflation, when it soared to 8,9% in May 2011 before moderating again to 5% in July.

Exchange rates

Subsequent to a decline of 5% in the first quarter of 2011, the effective exchange rate of the Rand decreased by a further 1,5% from the end of March 2011 to the end of June.

The Rand depreciated most notably against the Euro and the Japanese Yen, partly as a result of the rescue packages granted to certain European countries to avoid sovereign debt restructuring and to assist Japan in recovering from the natural disaster it experienced earlier in 2011.

Elevated commodity prices and a weaker American Dollar partly supported the external value of the Rand in April 2011.

During July and August 2011, the nominal effective exchange value of the Rand decreased by 4% as it depreciated against all major currencies.

The real effective exchange rate of the Rand decreased by 0,7% in the year to June 2011.

The average net daily turnover in the domestic market for foreign exchange decreased from US$23,3 billion in the first quarter of 2011 to US$22,6 billion in the second quarter. This could largely be attributed to a decline in the value of non-resident swap transactions, which went from US$11,1 billion a day to US$9,5 billion a day over the period.

As a result, domestic banks' shares (authorised dealers in foreign exchange) in turnover in the domestic market for foreign exchange gained some ground.

Foreign trade and payments

The pickup in global demand alongside elevated international commodity prices boosted South African producers' export earnings and brought about a steady widening of the surplus on the trade account of the balance of payments throughout 2010.

In the first half of 2011, imports rose stronger than exports, resulting in smaller trade surpluses in the first and second quarters.

These developments, and also a moderate increase in the shortfall on the services, income and current transfer account of the balance of payments, gave rise to the current-account deficit going from 1% of GDP in the fourth quarter of 2010 to 3,1% and 3,3% respectively in the first and second quarters of 2011.

Having contracted by 3,6% in the first quarter of 2011, the volume of merchandise exports rose by 3,7% in the second quarter, in part also reflecting the low base in the preceding quarter.

Department of Economic Development

The Department of Economic Development, which was established in 2009, assumed responsibility for coordinating government's work on the framework for South Africa's response to the international economic crisis. The department is also responsible for developing economic policy with broad, cross-cutting focus so that macro- and micro-economic policies reinforce each other and are both aligned to the electoral mandate. The department is responsible for economic development planning and works with other departments to ensure coordination around a programme that places decent work at the centre of government's economic policies to secure better employment outcomes.

Policy development

The department has identified a number of areas with the potential for new jobs. These are:

- infrastructure development
- the green economy
- the manufacturing sector
- knowledge-economy activities
- the rural, agriculture and agroprocessing sector
- tourism and business process services
- the social economy, which includes cooperatives
- public-sector growth
- the continental and regional economy.

An important policy focus for the department will be the creation of sustainable livelihoods and addressing the challenges of enterprises in the Second Economy.

Trade, investments and exports

Increasing the level of international trade is critical to domestic economic growth and development, and it is also an output linked to the outcome to create decent employment through inclusive economic growth.

The Department of Trade and Industry provides leadership on trade policy, and released the trade policy and strategy framework, which Cabinet adopted in July 2010.

The framework aims to promote the development of higher value-added, labour-absorbing production.

To complement this framework, the department has also developed strategies for export development and promotion, as well as investment promotion and facilitation.

A single integrated facilitation centre has been created to deal with investors and exporters.

The department has a network of foreign economic offices abroad to facilitate business on behalf of South African companies.

The department assists exporters by providing information, financial support and practical assistance to sustain growth in traditional markets and penetrate new high-growth markets, such as China, India, Russia and the Democratic Republic of Congo.

The focus is on investments that have a greater multiplier effect to the South African economy.

At multilateral level, South Africa continues to play a prominent and active role in the World Trade Organisation (WTO), and supports the consolidation of the G20 group of developing countries, which seeks to ensure a developmental outcome in industrial tariff negotiations.

Progress has been made in trade integration in the Southern African Development Community (SADC). Over the medium term, the SADC will focus on addressing rules of origin, trade facilitation and non-tariff barriers.

Industrial development

The clothing, textiles and automotive sectors have been identified as key strategic sectors for which the Department of Trade and Industry will continue improving incentive schemes to boost manufacturing capacity and support job creation.

Industrial policy interventions to support developmental objectives will be reviewed.

The challenge is to substantially raise the level of industrial policy interventions in a range of sectors and simultaneously build the necessary capacity in the department to manage this upscaling.

In relation to incentives for industries and enterprises, further work is planned to align the industrial financing regime with industrial policy objectives.

Production incentives in the clothing and textiles and automotive sectors will be increasingly grant-based, thus reducing reliance on tax incentives.

Over the medium term, the department will also focus on improving the efficiency of the incentive administration system to record applications and deal with claims, verify information and document all correspondence.

Industrial Policy Action Plan II

The IPAP II 2011/12 to 2013/14 was launched in April 2011 as a three-year rolling industrial development road map. In terms of the breadth of the interventions outlined and the requirement of intergovernmental coordination and multistakeholder involvement, IPAP was a first of its kind in South Africa. The IPAP II 2010/12 to 2013/14 represents a qualitative step forward in government's industrial policy efforts and has achieved much progress.

Multilateral engagements

South Africa is a key player in global institutions and is performing an increasingly critical role in the fast-changing governance landscape.

The country is a member of the International Monetary Fund, the World Bank, the WTO and the United Nations System, including the International Atomic Energy Agency. South Africa plays a pivotal role in reshaping global governance and financial and trade architecture. This is reflected in its membership of the G20 group of advanced and emerging economies, in line with the shifting balance of global economic power.

Economic transformation

The Department of Trade and Industry aims to foster the growth of small, medium and micro-enterprises (SMMEs) and cooperatives by:

- facilitating the provision of business-development support to increase the current number of SMMEs (estimated at two million) and to increase the contributions of SMMEs and cooperatives to GDP from the current estimated 40% to 45% by 2014
- funding equipment to assist with the establishment of 300 small-scale cooperatives over the next three years, resulting in 1 500 new jobs or memberships of cooperatives
- facilitating access to procurement opportunities for SMMEs and cooperatives in 2012 by overseeing the implementation of the 10-products strategy, which is aimed at increasing the share of SMMEs and cooperatives in government and state-owned enterprise (SOE) procurement
- integrating entrepreneurship into the curriculum and research activities of four universities and two further education and training colleges over the next three years

Trade relations between India, Brazil and South Africa (IBSA) have improved despite the global economic recession. The IBSA international tripartite grouping is aimed at boosting cooperation between the countries.

IBSA had done particularly well in the targets it set for increasing trade and is expected to achieve the target of US$25 billion dollars in combined trade by 2015.

IBSA countries have numerous competitive advantages offering practical cooperation that needs to be built on, such as in the area of small business development, where Brazil and India have made big strides. Industrial policy is another area where South Africa is gaining benefits from the relationship.

A business forum, held in October 2011 in South Africa, was part of the fifth IBSA leadership meeting hosted by President Jacob Zuma. Resolutions of the forum will be tabled at future heads of state and government dialogue sessions.

- strengthening and upscaling the incubator programme to generate 600 new enterprises that can provide at least 5 000 jobs by 2014
- aligning Black Economic Empowerment (BEE) with industrial policy to facilitate the increased participation of black people and women in priority sectors by 2013
- supporting 60 innovative projects and at least 6 000 students to participate in the development of new technologies over the next three years, thus contributing to the establishment of new SMMEs
- supporting the development of at least three underdeveloped areas through targeted interventions by 2014
- improving the competitiveness of at least 120 companies by 2013 through the Workplace Challenge Programme.

State-owned enterprises

SOEs invested over R105 billion, mostly in infrastructure, during 2011/12. The NGP sets the target of five million new jobs by 2020.

In July 2011, Cabinet announced that President Jacob Zuma was heading the Infrastructure Commission, which was set up to improve visibility and coordination of South Africa's R860-billion public investment drive. It will include all spheres of government, various national departments and SOEs.

It will seek to unblock regulatory and funding constraints, set five-year project priorities, create certainty about

In the automotive sector, government's industrial incentive schemes and the solid platform for investment are attracting new investment by major multinational corporations.

In February 2011, it was announced that Mercedes-Benz would use South Africa as one of only four locations globally to build the next-generation popular C-class vehicle at its East London plant, creating about 1 500 new jobs in supplier industries.

General Motors will produce the Spark entry-level passenger car at its Port Elizabeth plant, creating 500 additional jobs. Volkswagen is producing the new Polo left-hand drive in Uitenhage for export markets. Ford Motor Company is producing the new-generation pick-up truck at its Pretoria plant and will increase the local content of its vehicles from 35% to more than 60%.

From August 2011, BMW started producing the new 3-series all-wheel drive in South Africa. Toyota has announced a major expansion of its warehouse capacity, involving close to R10 billion in new investment and will create additional work opportunities.

expected developmental and industrial spin-offs, support the revitalisation of rail infrastructure, gain a handle on the life-cycle maintenance challenge and improve linkages to poor and rural communities.

Expanded Public Works Programme (EPWP)

The EPWP is a government-wide intervention to create both short and ongoing work opportunities.

The EPWP continues to be a strategic intervention to alleviate poverty and unemployment through the creation of labour-intensive work opportunities.

The EPWP is characterised by, among other things, caring for the elderly and sick, educating pre-school children, rehabilitating and cleaning up the environment, as well as upgrading and maintaining crucial infrastructure such as roads, bridges, water and sanitation.

In 2011, Phase Two of the EPWP was in the second year of implementation, and the programme had committed to delivering 4,5 million work opportunities over five years.

The EPWP had been allocated R679 million for incentive grants to municipalities and R267 million for provinces. It created 643 116 work opportunities in 2010/11, exceeding its target of 642 000 work opportunities for the financial year.

This proves the programme is making a significant contribution to government's concerted efforts to reduce unemployment and poverty by 2014.

The sector breakdown of work opportunities created under the EPWP in 2010/11 was:

- infrastructure: 277 100
- environment and culture: 107 189
- social: 131 979
- non-state (community works programme): 92 136
- non-profit organisations: 34 712.

The Employment Services for South Africa (Essa) is an employment service provided by the Department of Labour's Public Employment Services entity, whereby unemployed and prospective employers register on the system. The system matches people to posts.

The *Essa Research Report* revealed that over 700 000 of the 4,3 million unemployed people were registered as work seekers on the Essa system. Of the 4,3 million unemployed, only 14,5% were registered at the Unemployment Insurance Fund.

The challenges Essa is facing includes staff and information technology systems capacity, interrelationships between stakeholders and matching and placing more work seekers in employment. From 2007 to 2010, 251 748 opportunities were registered with Essa, growing by an average of 96%. There were 2 714 employers registered on Essa.