BUREAU FOR ECONOMIC RESEARCH

Summary Report

MACROECONOMIC POLICY AND INCLUSIVE GROWTH SEMINAR

Stellenbosch, 4 December 2019

Background

After nearly a decade of weak economic growth, rising unemployment and a deteriorating fiscal position, South Africa's macroeconomic policy options are constrained. Rising debt and SOE funding requirements have narrowed the scope for fiscal stimulus, while weak investor confidence and financial vulnerability limit the potential effectiveness of monetary measures. What are the possible elements, in these circumstances, of a sustainable economic recovery plan?

The BER, in consultation with National Treasury, Business Unity South Africa (BUSA) and the Association of Savings and Investment of SA (ASISA), hosted a one-day seminar on 4 December 2019 to clarify thinking and explore option for macroeconomic policy and inclusive growth. The small discussion group comprised representatives of National Treasury, the South African Reserve Bank, the Department of Trade and Industry, the financial sector, ASISA, BUSA and academia.

Though a diversity of views were articulated on priorities and policy options, participants agreed that economic recovery requires substantially improved coordination between the public and private sectors, and across industrial, financial and service sector stakeholders. Greater impetus is needed, in particular, in urban development and in employment-intensive activities. An improved macroeconomic outlook, in South Africa's current low-growth trap, has to be underpinned by joint engagement to restore confidence, accelerate investment and broaden economic participation across a broad policy front – fiscal, financial, sectoral, local and institutional.

Currently trapped in a "weak growth, low inflation" trajectory, South Africa's economy is in its longest cyclical downswing on record, dating back to December 2013. The gap between SA's growth and the global economy has widened, and per capita GDP is expected to decline again in 2000.

In these circumstances of slow growth and benign inflation there is scope for a more accommodative monetary policy, but broader improvements in confidence and the business environment are needed to boost investment and credit demand. Shared public and private commitments to complementary long-term investment programmes are essential for a sustained and enduring economic recovery.

Key messages from the seminar

1. South Africa is caught in a "low-growth trap", in which policy uncertainty undermines business confidence, lack of confidence holds back investment and private sector borrowing, and slow growth leads to revenue shortfalls and a persistent budget deficit.
2. Low growth together with an unexpected decline in GDP inflation has exacerbated the public debt position and increased pressure on the fiscus. Economic stimulus will need to come from encouraging blended finance and self-financing investment programmes.

3. The key to fiscal consolidation lies in improved management of public sector remuneration, while resolving the longer-term balance-sheet challenges of Eskom and other SOEs. There is little scope for fiscal stimulus, the multiplier is low and effectiveness of spending is weak.
4. Stronger municipal infrastructure investment and housing are central to improved living standards and also critical for the outlook for the construction sector. Metros and larger city municipalities typically have low levels of debt and are well-placed to expand capital spending and encourage greater private investment in housing and industry.
5. While higher revenue would assist in reducing the budget deficit, raising taxes would be counterproductive in the present circumstances. Tax measures targeted to support employment and improve the distribution of the tax burden should be considered. Efforts are needed to strengthen municipal cost recovery and non-tax revenue in services such as health and education.
6. Igniting growth requires incentives targeted at mobilizing private finance and urgent steps to address weaknesses in project planning and infrastructure investment. Opportunities for more inclusive growth include employment-intensive sectors such as horticulture and tourism and the improved outlook for some mineral commodities and green energy investments.
7. There are substantial investment opportunities in urban development, infrastructure and housing but project preparation facilities and more streamlined PPP regulations are crucial. Development finance institutions such as the IDC and the DBSA can offer expertise and contribute to blended finance arrangements. Municipalities should be encouraged to contract independently with power producers and other providers to deliver services designed to meet local needs.
8. To revitalise growth, all stakeholders – government, unions, business, and civil society – must have confidence in the shared benefits of a collective development strategy. Trade-offs will need to be confronted, and the "balance of sacrifices" may need to be distributed differently. Strategic commitments have to be made at political rather than administrative levels.

Conclusion

Alongside fiscal consolidation and financial sustainability, South Africa needs stronger economic growth, rising living standards and broader economic participation. The key to progress is enhanced and intensive coordination of economic policy and investment programmes, founded on high-level engagement between social and economic stakeholders. While fiscal and monetary policies can contribute to the economic recovery challenge, broader policy coordination issues also have to be addressed, including industry and trade promotion, urban development, housing and labour market support measures.

Background papers and presentations:

Hugo Pienaar and Craig Lemboe, *The weak growth, low inflation economy.* BER Seminar Presentation, 4 December 2019.

Association for Saving and Investment SA, *Fiscal and monetary policy considerations: Restoring growth in the South African economy.* Discussion paper prepared for BER Seminar, 4 December 2019.

Andrew Donaldson, *Fiscal and monetary policy considerations: Restoring growth in the South African economy.* BER Seminar presentation, 4 December 2019.

Roy Havemann and Edward Kerby, *Re-igniting South African economic growth: Lessons from the past three centuries.* 3 December 2019.

Roy Havemann, *How do we ignite economic growth?* BER Seminar presentation, 4 December 2019.