

POLITICS TODAY



AN EXECUTIVE BACKGROUND BRIEFING FOR PROGRESSIVE BUSINESS

ADVANCES, CHALLENGES AND ISSUES

New report on SA's progress in the past 20 years shows the country could really fly if all stakeholders pulled together

TEN areas of advancement, 10 challenges and 10 key issues to be addressed.

These are the outcomes of an extensive analysis by the Goldman Sachs Group, Two decades of freedom: what South Africa is doing with it and what now needs to be done, launched at the Nelson Mandela Centre of Memory in Johannesburg yesterday.

Colin Coleman, Partner MD, said he hoped the report would contribute towards a "more balanced narrative on South Africa which recently had become somewhat emotionally heated, short term and often negative".

Structural advances

The report identifies key structural advances since 1994:

- GDP almost tripled from \$136bn (R1.39 trillion) to \$385bn today;
- Inflation fell from a 1980-1994 average of 14% to an average of 6% from 1994-2012;
- Gross gold and foreign exchange reserves rose from \$3bn to \$50bn today;

- Tax receipts of R114bn from 1.7 million people rose to R814bn from 13.7m people;

- In the past decade a dramatic rise in the middle class, with 4.5 million consumers graduating upwards from the lower (1-4) Living Standards Measure (LSM) and in total 10 million consumers added to the middle to higher LSMs (5-10);

- Social grant beneficiaries rose from 2.4 million to 16.1 million people today.

Rise of the middle class

Coleman said the government could claim credit for the rise of the black African middle class, and extending welfare and services to the poor while presiding over real wage growth. It has also delivered responsible macroeconomic stewardship while respecting independent institutions and upholding constitutional freedoms.

"But it is vital that the government takes steps to reduce inequality, increase employment, especially among the youth and defend the gains made by the African middle class," said Coleman.

Goldman Sachs		South Africans now and at the dawn of democracy		INVESTMENT BANKING DIVISION	
Based on National Census 1996 and 2011					
		1996		2011	
✓?	Population (m) – Total	40.6	+11.2m (27.6%)	51.8	
	- African	31.4	+9.6m (30.6%)	41.0	79%
	- Other	9.2	+1.6m (17.4%)	10.8	
✓	GDP (\$bn)	143.7		402.2	2.5x
✗	Unemployment (millions)	4.7		5.6	
✓?	Employment (millions)	9.0		13.2	(now 14.0m)
✓	Functional illiteracy* (%)	33.6%		19.1%	
Access to services (%)					
✓	Electricity ²	58.2%	State non-cash transfers	84.7%	
✓	Water ³	60.8%		73.4%	
✓	Sanitation ⁴	50.3%		62.6%	
✓?	Social Welfare (millions)	2.4	State cash transfers	14.6	(now 15.2m)

Source: National Census, Stats SA
¹ Defined as the number of persons aged 15 years and older with no schooling or whose highest levels of education are less than Grade 7
² Based on % of population that use electricity for lighting in the home
³ Based on % of population that have access to piped water inside the dwelling/yard
⁴ % of households that have flush or chemical toilets

How South Africa has changed in the almost two decades since 1994, and how it is now positioned in the world... 2

Technology

The report found that South Africa lags other growth markets in important areas such as research and development, and access to and use of technology and the internet. Investment in improving access and blanketing communities and schools with access to the internet could have a dramatic positive benefit for education and economic growth.

The anticipated tapering of quantitative easing heralds a tougher period for growth markets.

Those with high current account deficits like South Africa, Turkey and India are likely to be the focus of portfolio investor risk aversion.

Productivity

Productivity in the private sector has not kept pace with wage inflation, while the public sector, despite increasing to 2 million employees, has seen its contribution to GDP fall from 19% in 1994 to 15% today.

"This is not sustainable. Put simply, productivity needs to outpace wage inflation."

Economic growth shows strong improvement but unemployment is sticky. Yet GDP, on a dollarised basis, has grown 2.5 times over the period to around \$400bn today.

While unemployment has remained high with a net 900 000 added to the unemployed in 20 years, those with jobs have in fact grown by 4.1 million in the period. Employment has therefore grown, albeit at an insufficient rate.

Challenges

Challenges include:

- Unemployment remains stagnant at 25% from the 23% inherited in 1994;
- 70% of unemployed are aged 15-34;
- 85% of black Africans are in the lower income categories while 87% of whites are middle to upper class;
- The current account deficit of 6.5% is one of the highest among SA's peers;
- The contribution of mining and manufacturing to GDP has fallen to 23% from 38% in 1986;
- Household debt to disposable income soared from 57% in 1994 to 76%.

In the next 20 years SA should aim to raise GDP annual growth from the past 20 years' average of 3.3% to 5%, so growing the economy to \$1 trillion by around 2030. Such growth would cut unemployment and the debt to GDP ratio in half, and see GDP per capita double.

Goldman Sachs		Two Decades of Freedom		INVESTMENT BANKING DIVISION	
What achievable performance targets do we aspire to in the next 20 years?					
	South Africa		Target Metric ¹		
Real GDP Growth	■ 3.3%	→	■ 5%		
GDP (\$bn)	■ \$400bn	→	■ c.\$1 trillion		
GDP per capita	■ \$7,525	→	■ c.\$13,500		
Current Account Deficit	■ 6.5%	→	■ 3.5%		
Net FDI p.a	■ \$1.9bn ²	→	■ \$7.5bn		
Gross Gold and FX Reserves	■ \$50bn (200% of short term debt)	→	■ \$60bn (250% of short term debt)		
Gini coefficient	■ 60	→	■ 55		
Unemployment	■ 25%	→	■ 12%		
Debt / GDP	■ 42%	→	■ 20%		

¹ Based on historical performance of South Africa's economy since 1994 and comparison with a benchmark of countries including: Brazil, China, India, Indonesia, Korea, Poland, Mexico, Nigeria, Russia, Turkey
² Average since 1994

Conclusion 55 |

It's time we worked together

South Africans lack the hope and optimism that former president Nelson Mandela's generation had, Finance Minister Pravin Gordhan said yesterday.

"There is too much despair. We need to recognise the good work we've done," he said at the release of the Goldman Sachs report.

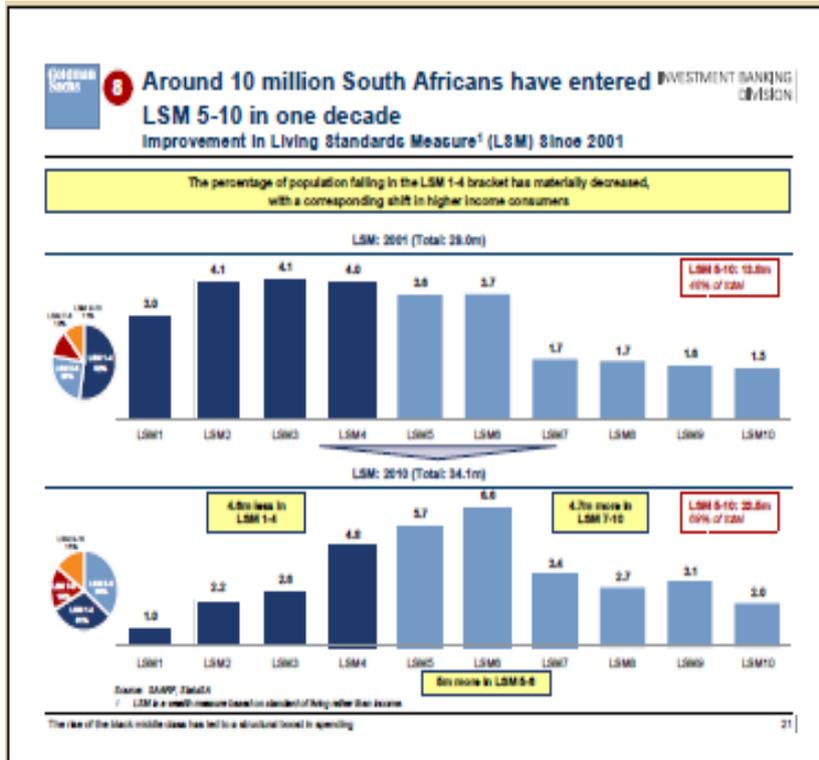
"Can we move from a 'me' generation to an 'us' generation?" he asked.

Business Leadership SA chairperson Bobby Godsell said the country needed to be stirred into joint action. He said some programmes carried the hopes of the country working together. These included the National Development Plan and the National Education Collaboration Trust. – SAPA

Ten burning issues that need to be addressed

1. Public sector productivity "bang for buck", especially in the areas of health and education. Exercise good management to meet own performance requirements. Education fit for employment.

2. Special focus on unemployment/ unemployable youth.
3. Labour pact for sustainable growth and employment. Balanced wage/ productivity growth.
4. Defending the rise of the African middle class.
5. Creating fiscal space to sustain spending on the poor by optimising state assets.
6. Driving economic growth through promoting industry and driving new frontiers of growth. Building economic linkages with Africa. Creating visible economic wins from BRICS.
7. Driving FDI through building investor confidence.
8. Driving innovation via increased investment in research and development and technology.
9. A common effort to protect the sovereign rating and cost of capital.
10. Leadership driving a culture of accountability and teamwork.



LSMs show progression path as disposable income rises

The rise in disposable incomes of South Africans has resulted in a remarkable progression in the LSM (Living Standard Measure) profile of the country.

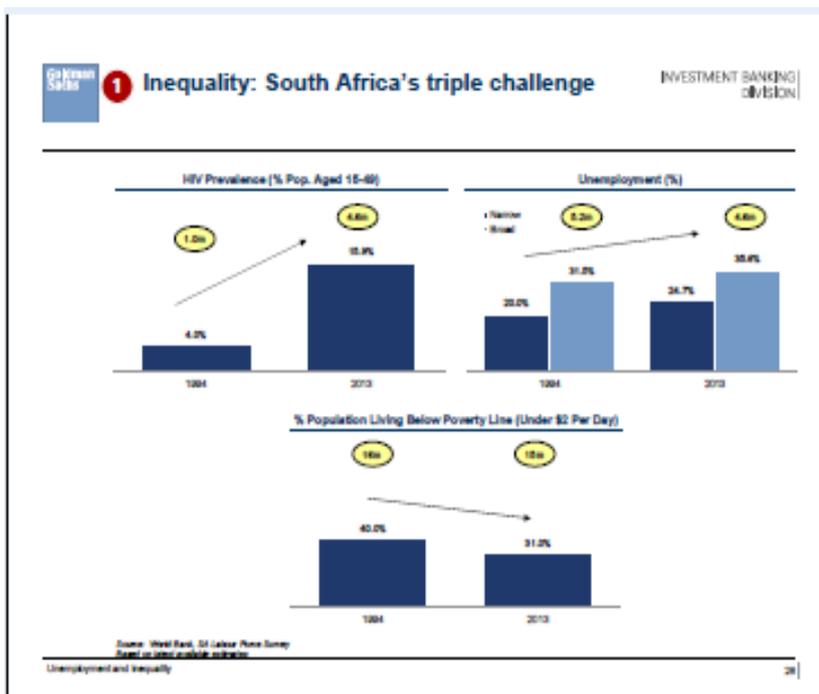
Between 2001 and 2010, the number of people in the LSM 1-4 categories (lower income group) decreased significantly from 52 % to 31 %, resulting in 4.6 million fewer people in the lower income group. And the number of people in the LSM 5-10 increased from 48 % to 69 %, resulting in almost 10 million more people graduating into the middle to upper band. This was an average of 1 million people per year over a 10 year period. Most people are now in LSM 5-6 (middle income), numbering 12.3 million from 7.2 million a decade earlier.

SA's massive triple challenge

About one third of South Africans face the triple challenges of HIV, unemployment or poverty.

These are the most processing issues the country faces, which we still have to overcome.

- 4.6 million people live with HIV. The expansion of the current ARV programmes and the lowering rate of infection are positive signs of the effects of a rising attack by South Africans on the disease.
- 4.6 million people are looking for and cannot find jobs, and another 2.2 million have given up looking for work. Together this represents a broad unemployment rate of 36 %.
- 15 million people today live below the absolute poverty line of \$2/day (R20 a day).



Ten final points to consider

- Much progress recorded in two decades of democracy
 - Significant challenges still remain
 - Achievements need to be defended
 - We live in a "good neighbourhood" but a mixed, challenging world
 - Business, government, labour and civil society "in it together"
 - We need a "Team South Africa" response
- The currency and our sovereign credit rating is the country's "share price" and "report card"
 - We know what needs to be done, we need effective team work and execution excellence
 - We have the people, the capital, the talent and the tools
 - Leaders across government, business, labour, academia, institutions and civil society need to take individual and collective decisive actions to improve South Africa's competitiveness and overall performance.

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