

Video transcript

South Africa's slow growth

David Faulkner, Economist, South Africa

Murat Ulgen, Chief Economist, Central and Eastern Europe and sub-Saharan Africa: Ever since May, when the Fed chairman Ben Bernanke mentioned about the prospects of tapering of quantitative easing, capital inflows into emerging markets came under the spotlight. Coupled with worries about the slowdown in emerging market growth, certain countries were particularly hard hit. These were Brazil, India, Indonesia, South Africa and Turkey. Today I'm joined by our new South Africa Economist, David Faulkner, to talk about his first comprehensive piece on South African economy. Let me ask you this first question, why is South Africa included in this group of fragile economies?

David Faulkner, Economist, South Africa: South Africa is included there because it too is experiencing slow growth and large twin deficits. Economic growth has slowed to a sluggish 2 per cent on an annual basis while there are large current account and budget deficits. The current account deficit widened into 6.5 per cent in the second quarter of this year, as a result of a deterioration in the trade balance. While we project that the budget deficit will be 5 per cent in 2013-14. These large deficits will make financing of internal and external balances challenging over the next few years.

Murat: Indonesia, India and Turkey have hiked rates throughout the summer months to prevent sharp currency depreciation and capital outflows, and Brazil has been doing so since early in the year. So do you think South Africa will follow suit?

David: Currently we do not forecast that South Africa will have to raise its policy rate. We have its interest rate at 5 per cent over the next year. The Reserve Bank and macro policymakers view the currency as an incredibly important shock absorber. As a result, we don't see rates being hiked. Effectively growth is being restrained by a myriad of structural factors and weak confidence in the economy. Whether these are infrastructure bottlenecks, a very tight and binding energy constraint, labour unrest, and high and rising wage settlement levels, these are factors that the monetary policy can play little part in determining.

Murat: So if you don't think they will act on the monetary policy front, what else can the policymakers do to address investor concerns?

David: Given that constraints are largely domestic, microeconomic and structural, what is needed is a set of reforms to affect the microeconomy. Last year, parliament and the ANC adopted the National Development Plan, a broad-based policy introduced by the National Planning Commission that provides a vision for the South African economy and society going out to 2030. In this it identified education reform, accelerating job creation and improving the efficiency and capability of the state as the critical pillars to accelerating growth in the economy.

Murat: And David, how do you see the macroeconomic performance going forward from here? Have you made any revisions to your forecasts?

David: We continue to see the South African economy performing sluggishly over the next year. We've revised down our growth forecasts from 2.2 per cent this year to 2 per cent, and from 2.9 per cent next year to 2.7 per cent. Overall, rates have looked to be held and inflation will remain quite contained.

Murat: And finally, what's next for South Africa? What should investors follow in the near term?

David: There are a number of issues that are worthwhile considering. Next year, in April, there are national elections, the Minister of Finance will present his medium-term budget policy statement later this month, and I think these events are going to be closely watched by investors and credit ratings agencies. Fiscal policy and the direction of politics have been closely focused on by ratings agencies in their decisions, and they have been identified as possible reasons for future downgrades.

Murat: David, thank you very much for joining us today.

David: Thank you, Murat.