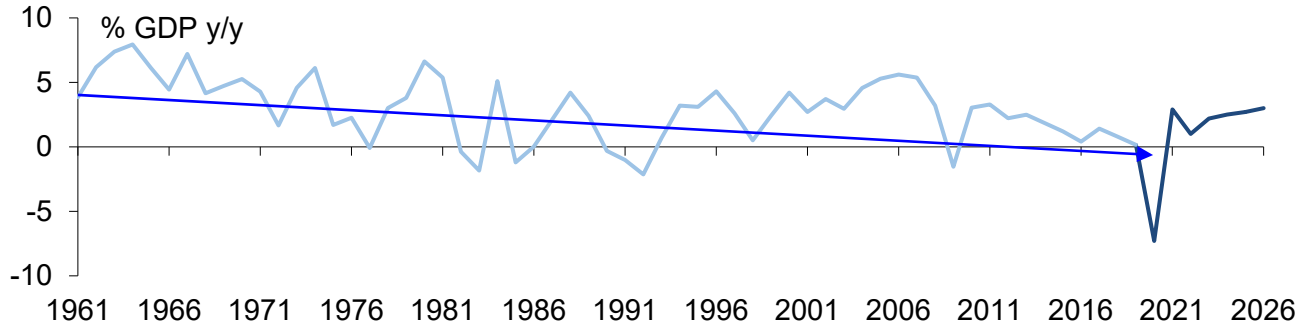




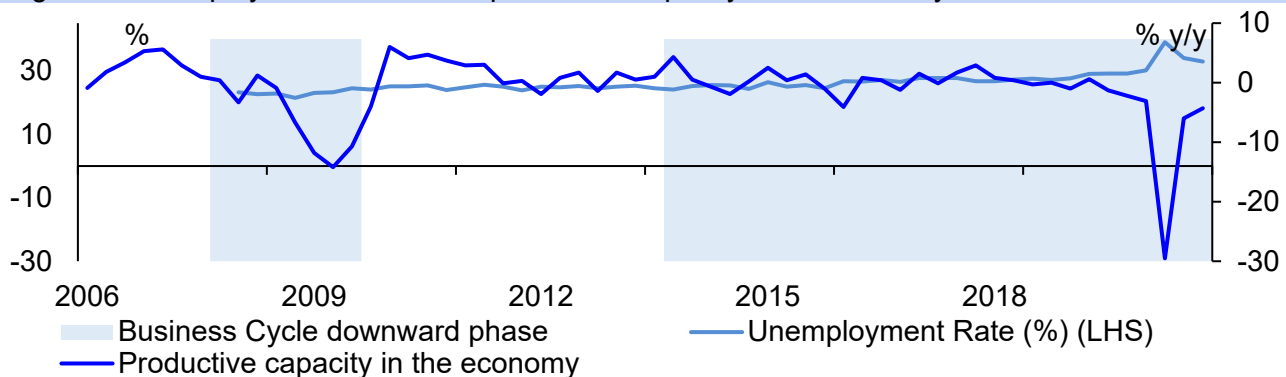
Figure 1: GDP growth (y/y %)



Sources: SARB

- The State of the Nation Address (SONA), taking place on 11th February this year, is key in the updates it provides on government’s policy focus, and while COVID-19, its impact and the State’s plans (delayed by the new variant) to contain the epidemic will take up a lot of airtime, an update on the ERRP’s (Economic Reconstruction and Recovery Plan) goals is critical.
- However, the concern is that nothing new will be announced that meaningfully shifts the smothering regulatory burden, and so makes it easier to do business (along with rapidly actually changing the capacity of electricity production, and so improving the economic growth outlook).
- Indeed, Government’s latest growth plan, the ERRP has seen few immediate goals achieved since its detailing in mid-October last year, and those that were made are mainly diagnostic, establishment of committees/funds or increased state employment. The harsh lockdowns of Q2.20 occurred before, not after, the ERRP targets were made and so some of its immediate goals should have been less optimistic.
- SA is likely to see economic growth of 2.9% y/y in 2021 as it rebounds from the -7.3% y/y collapse of last year, with an unstainable widening in government borrowings and its fiscal deficit, which provides a drag on growth. Planned government borrowings for 2021/22 sit at R4.6trillion (86% of GDP), reaching R5.5trillion by 2023/24 (93% of GDP) and 95% of GDP by 2025/26, as SA sinks deeper into a debt trap, and will garner lower credit ratings if these debt ratios are reached, moving then towards the C grade categories to reflect the increased risk of default. SA’s credit ratings are likely to fall into the single B grades this year already.
- Failure to achieve, as opposed to plan, rapid economic growth and cut state expenditure is the key risk.

Figure 2: Unemployment rate versus productive capacity in the economy



Source: Stats SA, IHS, Investec (imputed Q2.20 and Q3.20 unemployment rate on consistent methodology)

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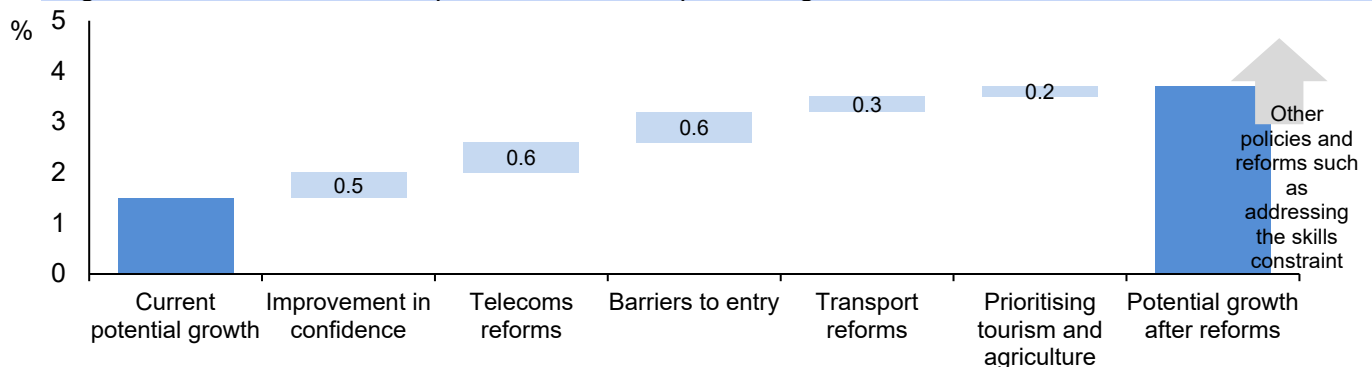
Figure 3: State of the Nation – repeating the same themes

Feb 2016 - Zuma	Feb 2017 - Zuma	Feb 2018- Ramaphosa
<ul style="list-style-type: none"> > Fight back against corruption > Act against state capture > Improve education > Better life for poor > NHI, land reform > Build capable state > Stimulate growth, save jobs > Reduce debt 	<ul style="list-style-type: none"> > Fight against corruption continues > Change institutions in economy > Change structure of economy > Change systems in economy > Change ownership of economy > NHI, land redistribution > Reignite growth and job creation > Education more accessible 	<ul style="list-style-type: none"> > Investment drive > New growth path, jobs summit > Improve education, skills > Improve living conditions for poor > NHI, land expropriation > Fight gender based violence > Strengthen capacity of state > Fight corruption, state capture
Feb 2019 - Ramaphosa	June 2019- Ramaphosa	Feb 2020- Ramaphosa
<ul style="list-style-type: none"> > Economic transformation > Job creation, education > Skills, health, social wage > Spatial integration > Fight gender based violence > Ethical capable state > Local government > Economy grow faster than population 	<ul style="list-style-type: none"> >Transformation and job creation >Education, skills and health >Reliable quality basic services. >Land expropriation, spatial integration >Social cohesion, safety >Capable ethical state >A better Africa and world 	<ul style="list-style-type: none"> > Infrastructure and Investment unit > Inclusive growth, create jobs >Improve education, skills >Improve living conditions for poor > NHI, land reform > Fight gender based violence > Strengthen capacity of state >Fight corruption, state capture

Source: SONA

- South Africa continues to fall behind on the ease of doing business (mainly by not achieving as much as other countries in its regulatory reforms) and so loses competitiveness as a result, lessening South Africa’s ability to achieve sustained, accelerating economic growth. In particular, the World Bank’s latest Ease of Doing Business report shows “115 economies implemented 294 business regulatory reforms across the 10 areas measured by *Doing Business*. Most of these reforms addressed aspects of starting a business, dealing with construction permits, getting electricity, and paying taxes; the least reformed area was resolving insolvency”.
- “The most common reform features included advancing the functionality of credit bureaus and registries, developing or enhancing online platforms to comply with regulatory requirements, improving the reliability of power supply, reducing certain taxes, strengthening minority investor protections, streamlining property registration processes, and automating international trade logistics. Low-income economies accounted for 11% of all the regulatory changes, with Togo implementing the highest number of reforms (five)”.

Figure 4: ERRP estimated impact of reforms on potential growth



Source: Based on estimates from the Modelling and Forecasting Unit’s SAGE model

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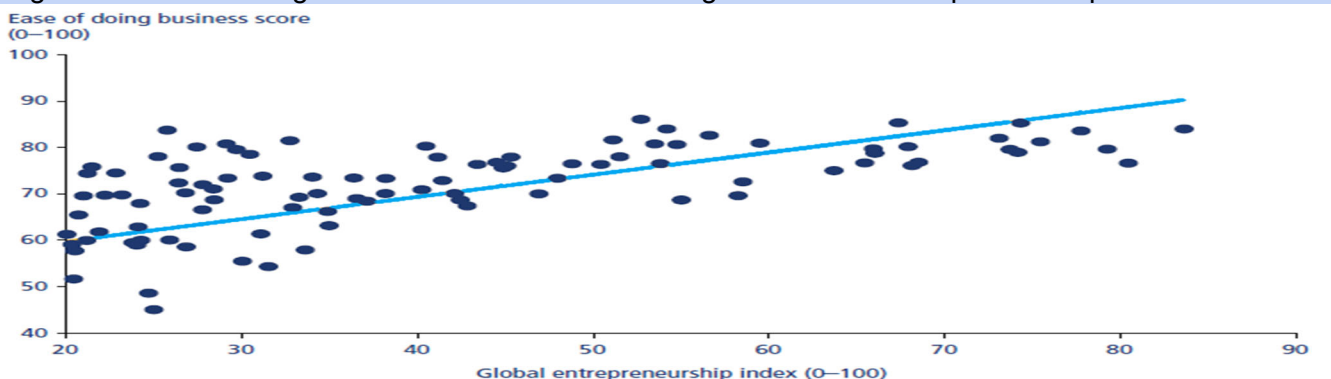
Figure 5: The 10 economies improving the most across three or more areas measured by Doing Business in 2018/19

Economy	Rand	Change in DB score	Starting a business	Dealing with construction permits	Getting electricity	Reforms making it easier to do business				Trading across borders	Enforcing contracts	Resolving insolvency
						Registering minority investors	Getting credit	Protecting minority investors	Paying taxes			
Saudi Arabia	62	7.7	✓	✓	✓		✓	✓		✓	✓	✓
Jordan	75	7.6					✓		✓			✓
Togo	97	7.0	✓	✓	✓	✓	✓					✓
Bahrain	43	5.9		✓	✓	✓	✓	✓	✓	✓	✓	✓
Tajikistan	106	5.7	✓				✓			✓		
Pakistan	108	5.6	✓	✓	✓	✓			✓	✓		
Kuwait	83	4.7	✓	✓	✓	✓	✓			✓		
China	31	4.0	✓	✓	✓			✓	✓	✓	✓	✓
India	63	3.5	✓	✓						✓		✓
Nigeria	131	3.4	✓	✓	✓	✓				✓	✓	

Source: World Bank, Doing Business database

- “Bahrain implemented the highest number of regulatory reforms (nine), improving in almost every area measured by Doing Business. China and Saudi Arabia follow Bahrain with eight reforms each.” The “underlying factors (that) drive economies to reform” “can be either political or economic or both. The economic advancement of neighbouring countries is also an important motivational factor. Research on the effects of market-liberalizing reforms in 144 economies over the period 1995–2006 finds that the most important factor in transmitting reforms between countries is their geographical and cultural proximity. The spill over effect is magnified when more countries adopt reforms that boost economic development.”
- “Furthermore, mass media coverage affects political decisions. A recent study finds that economies with higher media coverage of *Doing Business* tend to carry out more business regulatory reforms, with one- and two-year lags between media coverage and reform implementation.” South Africa has seen mass media coverage contribute to ousting President Zuma but has also seen its press extensively used to block economic reforms by opponents to the Ramaphosa presidency, with market friendly reforms aimed at boosting economic growth even labelled “neo-liberalism” at times as factions opposing the Ramaphosa Presidency seek to undermine any economic successes, particularly those opposing real efforts to eradicate corruption and state capture.
- While this still heavily fractured and heavily oppositional political climate exists, South Africa sees a low chance of achieving sustainable economic growth of 5-6% that meaningfully works down its unemployment rate towards 10%, and allows sustainable government finances through cutting its bloated civil servants’ remuneration.

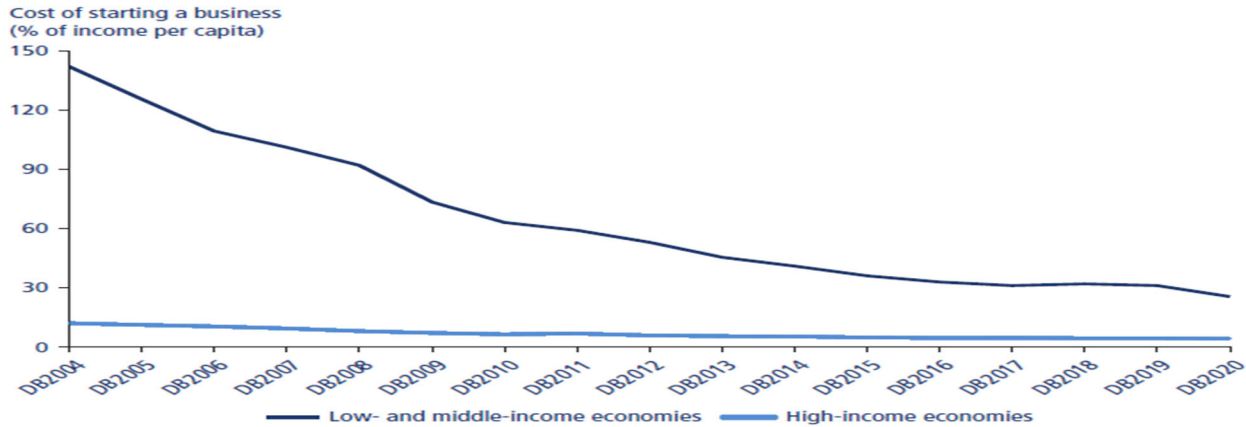
Figure 6: Ease of doing business is associated with higher levels of entrepreneurship



Source: World Bank, Doing Business database



Figure 7: The cost of starting a business has fallen over time in developing economies



Source: World Bank, Doing Business database

- The World Bank adds “(a)lthough *Doing Business* does not capture corruption and bribery directly, inefficient regulation tends to go hand in hand with rent-seeking. There are ample opportunities for corruption in economies where excessive red tape and extensive interactions between private sector actors and regulatory agencies are necessary to get things done.” This is particularly true of both South Africa’s onerous regulatory environment and its high levels of corruption. South Africa lags true, unified outrage against corruption.
- “The 20 worst-scoring economies on Transparency International’s Corruption Perceptions Index average 8 procedures to start a business and 15 to obtain a building permit. 5 Conversely, the 20 best-performing economies complete the same formalities with 4 and 11 steps, respectively. Moreover, economies that have adopted electronic means of compliance with regulatory requirements— such as obtaining licenses and paying taxes—experience a lower incidence of bribery.” South Africa needs to quicken the time taken to start a business, as it also means it quickens economic growth. All these factors above stated by the World Bank seem self-explanatory, and yet many South Africans still ask why is economic growth so low, what can be done?

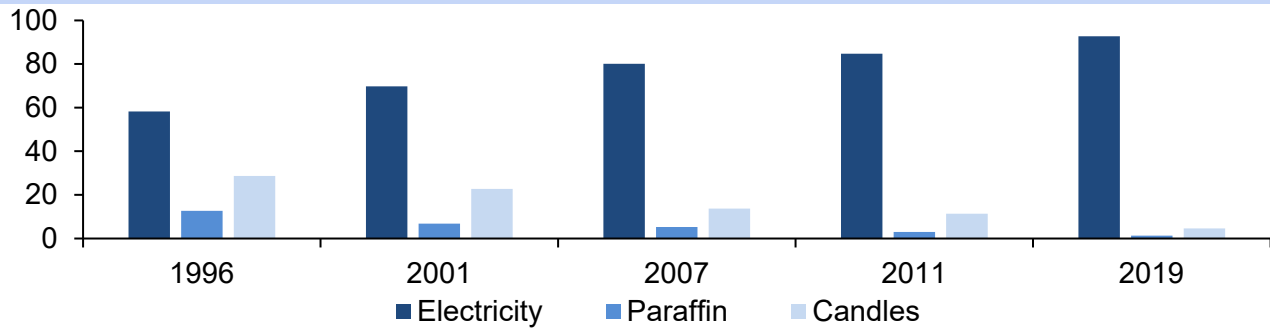
Figure 8: What Doing Business measures – 12 areas of business regulation

Indicator set	What is measured
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time, and cost to get connected to the electrical grid; the reliability of the electricity supply; and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders’ rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, and total tax and contribution rate for a firm to comply with all tax regulations as well as post filing processes
Trading across borders	Time and cost to export the product of comparative advantage and to import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes for men and women
Resolving insolvency	Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Employing workers	Flexibility in employment regulation
Contracting with the government	Procedures and time to participate in and win a works contract through public procurement and the public procurement regulatory framework

Source: World Bank, Doing Business 2020



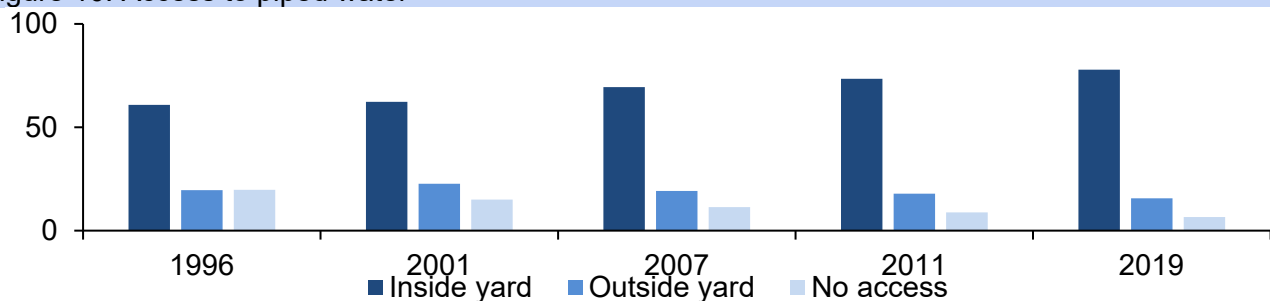
Figure 9: Energy source for lighting



Source: Stats SA

- The IMF notes, “(t)he pandemic has further exposed vulnerabilities of the South African economy. Thus, tackling long-standing fiscal and structural challenges is more critical than ever to set the stage for a robust recovery and pursue strong, durable, and inclusive growth. As per our previous advice, creating conditions to boost private investment, redefining the role of the public sector in network industries to facilitate competition, and tightening fiscal policy to rein in rapidly increasing debt are imperative.” EM debt around 60% of GDP is sustainable, SA is however already borrowing to meet its current expenditure including interest payments on debt. A debt default imperils the provision of social services.
- “A growth-friendly but sizable fiscal consolidation effort over the coming years will be required to stabilize debt and put it on a declining path, thus reducing country risk premia and improving investor confidence. While phasing out COVID-19 outlays once the pandemic subsides, we encourage the government to make transfers to SOEs conditional on meeting ambitious but realistic performance targets; rationalize compensation; dismantle ill-targeted subsidies; and improve enforcement of tax compliance. This would reduce sovereign borrowing needs while preserving fiscal space for well-targeted outlays for infrastructure, health, education, and social protection.” Rationalisation of all civil service remuneration, including at SOEs remains paramount if fiscal consolidation is actually to be achieved, versus default.
- “The government is rightly prioritizing the response to the pandemic. Plans to provide adequate public funding to ensure a successful vaccination process are welcome. Fiscally responsible measures to support vulnerable households and businesses would mitigate the impact of tighter mobility restrictions. We welcome the authorities’ commitment to transparently disseminate the roll out of support. At the same time, and considering the challenging fiscal situation, reducing the pressure on the budget from inefficient outlays is crucial.” The provision of the social wage in SA is also threatened by the rise in credit risk.

Figure 10: Access to piped water





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Source: Stats SA

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