

Ian Plenderleith: Five big issues in the economic field

Speech by Mr Ian Plenderleith, Deputy Governor of the South African Reserve Bank, to the ACTSA (Action for Southern Africa) Corporate and Professional Dinner, Johannesburg, 2 June 2005.

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Visitors to South Africa are encouraged to go on safari and see “the Big Five”. The big five are, indeed, awesome in the wild and a memorable sight. But I have always regarded the notion that visitors can see just the big five, and then go home feeling they have covered the ground, as distinctly sub-optimal marketing. Any score card that leaves out, for example, the mute grace of the giraffe, or the sheer brute force of the hippopotamus, or - my personal favourite- the nimble elegance of the warthog, does not begin to do justice to the diversity of wildlife in South Africa; and if we also add a few of the rarer sights, like perhaps wild dogs and cheetah, we would encourage visitors to stay longer and add yet more to our tourist earnings.

The big five are not, however, only to be found in the bush. In the economic field, too, we have for the past decade been determinedly and assiduously tracking a different sort of big five, representing the key elements we need to nurture to enable our economy to achieve higher and rising levels of sustainable growth in output and in employment and hence in living standards for all the people of South Africa. I want tonight briefly to point out these economic big five to you and to suggest that, after years of carefully stalking the spoor, we are now on track and in sight of the big five and well placed to enjoy the continuing benefit of their company.

What are these big five, in the economic field?

First, the economy as a whole continues to demonstrate vigorous and sustained growth. We have in fact achieved continuous positive growth in output for the past 26 consecutive quarters - some six and half years. That is a remarkable track record of cumulative growth. More recently, we have seen growth accelerate, from 3 percent or just over in the past few years to 3.7 percent last year and continuing to run close to that level on the first quarter GDP data released just this week. The economy appears to have moved up in the past two years onto a higher growth trajectory which, if it can be sustained, is extremely good news.

Secondly, there are good reasons for believing that this move to a higher growth trajectory is not a passing phase, but is sustainable and can continue. The reasons are that disciplined fiscal policy has kept the public finances strong, with the budget deficit and public debt kept to prudently manageable levels; and that monetary policy - the particularly responsibility of the Reserve Bank - has succeeded in bringing down inflation and holding it down, so that inflation has been within our target range of 3-6 percent continuously since the latter part of 2003. Importantly, this track record of low inflation has helped to bring down inflation expectations, and our projection looking forward is that inflation will remain within our target range. It is this encouraging outlook for inflation that enabled us to reduce interest rates in April, and it is this platform of stability achieved by fiscal and monetary policy working together that gives encouragement that the higher growth trajectory we are experiencing will indeed be sustainable, even though there will inevitably be ups and downs along the way as we experience, for example, vagaries in the global economy and normal business cycle effects.

Thirdly, our external position has been strengthened. Helped by the recovery in the rand from a sharp temporary fall in 2001, we have been able to make good progress in rebuilding our foreign exchange reserves, working towards more normal levels. Moreover, although the general weakening in the dollar has at times been a source of strain on externally-competing sectors of our economy, we have over the past 18 months seen the rand tend to trade on a more settled basis within a broad trading range, with less volatility. The signs we are seeing of a stable and competitive exchange rate will help to sustain the higher growth trajectory of the economy as a whole.

Fourthly, we have in South Africa a strong economic policy framework that has been exemplary in focusing on the development needs of the country in a considered and co-ordinated way, and as such is widely admired internationally. Alongside the disciplined approach to fiscal policy, and the monetary stability our inflation targeting framework has achieved, well-constructed supply-side policies are directed at increasing the growth capacity of the economy, particularly with the current focus on education, training and skills development and on improving the physical infrastructure. Alongside, truly impressive progress has been made in addressing the backlog of social neglect, as is evident

from the impressive statistics and the visible evidence all around the country of low-cost house building, water supply, sanitation, health and education facilities and essential social support. All these elements of economic policy are working together to increase growth in output and employment and living standards on a sustainable basis.

Fifthly, there has in the past year or two been a perceptible improvement in international confidence in the South African story. The recent evidence of this can be seen in the upgrade in South Africa's international rating earlier this year by one of the major rating agencies, and in the decision by a leading international bank that it wishes to enter our domestic retail banking market as a full-service participant.

Stalking these big five and staying on track to keep them in sight has been a major effort and a considerable achievement in such a short period of years. Nor are they the only objectives we as a society need to pursue. We cannot, of course, relax and we need to keep on track. As for the wild life in our national parks and game reserves, we need to keep the big economic five in sight and to nurture the right environment for them to flourish. In so doing we will, like any good game ranger, ensure that the benefits are sustainable and that they are enjoyed by the whole community.