

T T Mboweni: South Africa - a land of hope and opportunity

Remarks by Mr T T Mboweni, Governor of the South African Reserve Bank, at an ANC breakfast meeting, Johannesburg, 22 June 2005.

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Ladies and gentlemen
Distinguished guests

Thank you for inviting me here this morning to say a word or two about the South African economy. When I received this invitation to be here this morning, a number of questions arose in my mind. The primary one being whether a governor of a central bank should speak at occasions such as this which are organised by political organisations. It was a vexing question which required of me a serious answer.

Central bank governors have to demonstrate at all times their commitment to the independence of central banks from political influence. In fact central bank independence also means rebutting any attempt by anyone including market participants to influence their decisions or interfere in their operational work. At the same time, central bank governors have to engage in extensive communications with the markets, the general population, governments and parliaments. So any opportunity to communicate should be seriously considered and if time permits, should be entertained whether from a political party, market participants or any other organisation which is reputable. So any political organisations wishing to invite me to their functions are welcome to do so. We just have to negotiate time.

It is against this background that I accepted your invitation to be here this morning.

South Africa is still very much a country in transition. It is a country of many hopes and opportunities.

Firstly, the political system is maturing. Most certainly, the political system is entrenching democratic values and systems. People stand for elections within their parties - sometimes squabbling very badly privately and in the media in their endeavours to be elected, they avail themselves as candidates for local council chambers, provincial legislatures and the national parliament. Debate is generally developing in its robustness. More often than not acrimoniously so. Not a place for the weak!

Secondly the media - the fourth estate - is lively and maturing too. Public officials and private executives are closely scrutinised to check on their performances and good corporate governance standing in order to move the country forward. The media questions and exposes. Sometimes their approach is certainly questionable but on the whole they are making a good contribution to our society. There is room for improvement particularly in financial journalism - a matter being attended to by some journalism schools. But an open and democratic society by definition requires a vigorous, investigative and independent media.

Thirdly, the judiciary, despite its many weaknesses given where we come from, is independent and is making its contribution towards the respect for the law by all of us. Issues are being attended to as far as the transformation of the judiciary both in terms of form and content is concerned. Progress in this regard is promising as the government and the judiciary are hard at work to achieve this historically fundamental objective. The respect for the judiciary really demands that the authorities must not keep their eyes off the transformation ball. But whatever the outcomes of this process, the end result must be to protect and enhance the independence and respect for the judiciary.

Fourthly, we have in South Africa policies and laws that respect, protect and understand the fundamental role of private property rights in the economic development of our society. Those who a couple of years ago doubted the positive role of private property in society and its role in the economy are slowly coming to the conclusion that people's rights in private property are prerequisites for promoting investment and certainty that one's investment today can be protected by law, with the courts available to enforce it and thus confident to grow businesses whether industrial or agricultural. There are still many countries on our continent which should still need to improve private property rights in order to give surety and confidence to investors.

Fifthly, there is in this land of hope and opportunity a vibrant culture and entertainment industry which is vital in any society. Music, dance, theatre, museums and other places to visit and enjoy. We are even beginning to see the entry by black dancers into the ballet schools and companies. Even I,

coming all the way from rural Limpopo, now appreciate La Traviata! So it is not just about soccer and rugby.

Sixthly, this is a normalising society where challenging issues are looked straight in the eye, in particular race, gender and the development of a black business class.

Finally, the population expects and demands to be heard at every turn. Expectations are justifiably high for housing, clean water, good public schools, good health services, good roads and streets, including traffic lights that work, safety and security, employment opportunities, the fairness of the justice system and the rest. There is demand for delivery everywhere. The public authorities and private companies are kept in check all the time. Our society is moving ahead indeed. Of course with demands for socio-economic needs also come responsibility to care and look after that which has been "delivered".

How are we doing then as far as the economy is concerned? How has globalisation affected the South African economy and society?

As we know, the South African economy was primarily dependent on gold and diamond mining together with agriculture for many years. Many African people were driven from the land where they lived as peasants and pastoralists to the mines, emerging factories, agriculture and domestic service through the combination of political repression, land dispossession and yes, taxation. In the 1960s, the South African economy increasingly became industrialised and services oriented. Of course the scourge of the colour bar in our society and the workplace was used as a major instrument to racialise everything. Agriculture and mining together contributed about 20.4% to Gross Domestic Product (GDP). In the 1990s this declined to 11.3%. Today mining contributes about 7.8% and agriculture 3.6%. This is a major change in the structural make up of the economy.

The secondary sector contributed about 27.8% to GDP in the 1960s. Although this has declined somewhat to 24% currently, this is nevertheless testimony that our economy remains highly industrialised. Another major change in our economy occurred in the services sector. In the 1960s, this sector contributed about 51.8% to GDP and today it accounts for 64%. Again this is a major structural change in our economy. Clearly, mining and agriculture have been the major "losers" in these developments. But let us not make the mistake of abandoning these sectors for we still have two-thirds of our gold in the ground and there are still many viable mineral deposits in this country and we still have to feed ourselves from agricultural activities. Oh by the way: food does not come from Pick 'n Pay but from agriculture! Sometimes people forget this.

The structural change from mining, agriculture and some extent manufacturing to an economy heavily dominated by the services sector has major implications for the jobs market. It means that the skills required for the services sector are much higher than was the case previously. Many people have made the observation that the consequences of the Bantu education system are being more severely felt now than at any time in the past. There is no doubt that one of the most critical areas of focus in South Africa at the moment and for the foreseeable future is education and broadly human resources development. This has to be strategic in nature. We have to focus and provide resources for training people in those areas of extreme need side by side with general education. We need engineers, accountants, pilots, of course lawyers, actuaries, doctors, nurses, scientists and other specialised technical skills for an increasingly services sector driven economy. And how can I forget economists! Mathematics education is fundamental to this.

Alongside these structural changes in our economy has been the process of global integration of the South African economy. Whilst in the 1960s we were mainly an extractive economy, by the 1990s the South African economy was fairly integrating broadly into the world economy. With sanctions out of the way, imports and exports of goods and services amounted to about 44% of the economy. Currently this has increased to 55.6%. The manufacturing sector, despite its challenges from time to time saw its exports rise to 29.6% in the 1990s to about 37.9% in the period 2000-2004.

One of the most notable features about the globalisation of the South African economy is to be found in the banking sector. South African banks as a percentage of GDP averaged 77% during the period 1965-1994. In 2004, this share of GDP by South African banks was 109%. The equity market averaged R2 billion in the period 1970 to 1985., R21 billion per year for the period 1986-1993, the annual turnover in the equity market was R62 billion in 1994 and in 2004, the annual turnover was about a R1 trillion. Market capitalisation on the JSE increased from an annual average of R40 billion for the period 1970-1980 to R2 trillion in 2004.

Further more compelling evidence of globalisation is to be found in the performance of the bond market. Between 1970 and 1985, turnover in this market was about R8 billion, in 1995 this had increased to R2.3 trillion and in the year 2004 turnover was R8.4 trillion.

Finally the foreign exchange market which interests so many people has also seen some remarkable evidence of globalisation. To cut a long story short, in 1987 the average daily turnover in this market was 1.1 billion US dollars and during the course of 2005 the average daily turnover in this market in some 12 billion US dollars. So there is a lot of activity going on there.

The only conclusion I can come to is that we are coping well with globalisation. We have seen some benefits but yes there has also been some costs such as the impact of globalisation on the gold mining sector.

Let me conclude by saying that there has been a remarkable achievement in the two areas that I closely focus on as part of my job. This is inflation and budget management in South Africa. Inflation has so far been contained within the inflation target. The government's budget management is an example to many countries throughout the world recording budget deficits before borrowing of less than three percent of GDP consistently. Progress has indeed been made.

The hope and opportunities that characterise South Africa make me happy to be a South African at this historic juncture in the development of humankind.

President Mandela remarked somewhere that 'the sun will never set on such a glorious human achievement' I agree with that.

I thank you.