X P Guma: Investing in Africa

Address by Dr X P Guma, Deputy Governor of the South African Reserve Bank, at the Arab-African Investment, Banking and Business Conference, Cape Town, 28 November 2006.

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1. Introduction

Chairperson, Excellencies, distinguished guests, participants, ladies and gentlemen, it is a great honour for me to address you this morning, here in Cape Town. Permit me to add my voice to those which have already welcomed our visitors to South Africa.

1.1. The Victoria and Alfred Waterfront, where we are meeting, is perhaps a uniquely appropriate venue for this meeting of minds, given that this waterfront was recently acquired by the Dubai World and London & Regional Properties consortium. The consortium has in addition, also announced its plans to invest a further US$1 billion plus in the further bricks-and-mortar development of the V & A Waterfront over the next four years. This is, some would say, concrete representation of the nature of the benefits which flow from increased interaction between our respective regions.

1.2. In this address, I intend to outline some salient characteristics of the current conjuncture in Africa – from the perspective of investment. I will then say something about South Africa, again from the perspective of its attributes relative to investment. No claim is made, here, to originality. The object is, by contrast, to re-state those positive aspects of the current conjuncture which bear repetition: for no Arab or African economy is currently included in the list of “advanced economies”. All are typically classified as “emerging-market and developing countries”, equally capable of either retrogression or progression.

2. African emerging

2.1. As is well-known by now, the integrated socio-economic development framework for Africa was adopted in July 2001 in Lusaka by the 37th Summit of the OAU, and was named NEPAD – the New Partnership for Africa’s Development. The four primary objectives of the NEPAD programme are the eradication of poverty, the promotion of sustainable growth and development, the integration of Africa in the world economy, and the accelerated empowerment of women.

2.2 NEPAD has a commitment to good governance, democracy, human rights and conflict resolution as underlying principles. The programme recognises that maintaining these standards is fundamental to the creation of an environment which is conducive to strong investment and long-term economic growth. NEPAD seeks to attract increased investment, capital flows and funding, providing an African-owned framework for development as the foundation for partnership at both the international and regional level.

2.3 NEPAD priority action areas include operationalising the African Peer Review Mechanism, infrastructure, agriculture and food security, the preparation of a coordinated African position on market access, debt relief and official development assistance, and human resource development in the areas of health and education (NEPAD 2006).

2.4 And the current conjuncture is essentially promising. An important indication of the overall soundness of macroeconomic policies can be obtained from the **inflation rate**. In this connection Africa has made considerable progress. Few policymakers nowadays believe that higher inflation can buy lasting growth and prosperity. In a range of African countries measures have been or are being put in place to legally entrench disciplined financial policies, for instance by providing the central bank with an appropriate mandate and the degree of independence necessary to pursue that mandate successfully.

2.5 A further key indicator of the state of the economy is the **real growth rate**. Growth in aggregate real gross domestic product in Africa has become more consistent in recent years and has also become stronger, as shown in the slide. Partly this is due to the more sustainable monetary and fiscal policies being pursued in most parts of the continent, replacing earlier stop-go policies. Partly it is also a result of benign global economic conditions and international prices which favour African commodity producers.

2.6 With greater stability and an improved economic performance, Africa has also been able to attract more **foreign direct investment** in recent years, as shown in the accompanying slide. And this is likely to feed back into stronger growth, helping to create a virtuous circle.

2.7 The benefits of a fair degree of robustness in the face of adverse economic developments are substantial. Accordingly, many developing countries have in recent years strengthened their **foreign exchange reserves**. Africa is no exception in this regard, as shown in the slide.

2.8 Avoiding excessive levels of **foreign debt** can be as important as building up foreign exchange reserves in ensuring the ongoing health and robustness of the economy: and Africa has, over the past few years, succeeded in reducing its foreign debt rather dramatically. Part of this reduction is due to the debt write-offs under the Heavily Indebted Poor Countries (HIPC) initiative.

2.9 These developments at the aggregate level for all of Africa are promising. However, further analysis at the regional and country level must clearly be done in coming to terms with any specific investment project or commercial venture.

3. Financial infrastructure – South Africa

3.1 Turning now to the domestic environment; it is the case that the financial sector in South Africa is strong and versatile, offering an extended range of products and services.

3.2 There are currently 18 registered banks, two registered mutual banks and 15 registered branches of international banks in South Africa, with combined assets of just below R2 trillion. As has been pointed out elsewhere[1] - this banking sector is highly integrated with the bond and equity markets – eight of the banks acting as primary dealers in the bond market. The four biggest banks are also settlement agents of the Bond Exchange of South Africa, with the South African Reserve Bank serving also in that capacity. All the banks registered in South Africa are closely supervised by the Bank Supervision Department of the South African Reserve Bank which ensures that they remain well capitalised, have proper corporate governance and risk-management frameworks in place and fulfil all the requirements of the law.

3.3 Both the bond and equity markets are formalised and exchange driven, in the form of the Bond Exchange of South Africa (Besa) and the JSE Limited (JSE). These exchanges have been very successful in fulfilling their function or raising funds and mobilising capital. In 2005, a total net amount of R23,8 billion was raised through the primary issuance of bonds on Besa (after repayments of redemptions), and R82,2 billion of share capital was raised by companies listed on the JSE. Combined, this equals almost seven per cent of GDP.

3.4 During 2005, secondary market turnover on the Besa was equivalent to approximately 38 times the market capitalisation as at the end of December 2005. Moreover, turnover on the JSE amounted to R1,3 trillion, about 35 times the total market capitalisation.

Both exchanges continue to enjoy the patronage of nonresidents, who account for approximately 20 per cent of the daily turnover on both exchanges.

In short, South Africa's capital markets are broad, deep, liquid and accessible.

3.5 It is also the case that South Africa has a National Payment System which has been recognised as a model for development initiatives in the region and internationally. The system operates in real time, is governed by an Act of Parliament and is linked to the CLS Bank settlement system ensuring that international transactions are settled with the same efficiency as are domestic ones.

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[1] T. Mboweni: Deepening Capital Markets: The Case of South Africa – 7 November 2006

3.6 The monetary and fiscal authorities in South Africa pursue sound policies which promote stability and provide a solid platform for growth and development. South Africa has adopted an inflation-targeting framework for monetary policy, and the South African Reserve Bank has maintained inflation within the target range of 3 to 6 per cent over the past 3 years. Furthermore, the maintenance of low and stable inflation is a goal shared by central banks in the Southern African Development Community (SADC). To this end the central banks of SADC are far advanced in developing model legislation which provides for the pursuit of low inflation by central banks, an adequate degree of independence for the central bank, and limits on central bank lending to government.

Conclusion

Central bankers, and many who work in central banks often hear: they do not always listen. But that should be of little concern to those here present. Those who are here, in the main, are not central bankers. They will likely hear and they may listen.

For this reason, I have chosen to say nothing about the problems which, undoubtedly, exist in our respective regions. Hearing and listening are, after all, some of the principal reasons for this dialogue: for it is the honest visitor who will innocently ask about the significance of the tick on your back, it tick there be – when you have chosen to behave as if there is not tick, least of all on your back. And it is the honest host who will respond appropriately.

They said, who were wise, “lentswe le tšela noka etletse”. In free translation, “the voice fords fluidly ee’n rivers full”. Let not the rivers or oceans separate us, for voices we have all. We also, unlike the ancients, have the possibility to invest in infrastructure to enhance communication.

I thank you for your attention.

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