

## **T T Mboweni: Making Johannesburg a world-class African city**

Address by Mr T T Mboweni, Governor of the South African Reserve Bank, at the Country Club Johannesburg Breakfast Meeting, Johannesburg, 8 June 2007.

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Honoured guests  
Ladies and gentlemen

### **1. Introduction**

Thank you for the invitation to address one of your series of breakfast meetings, coming as it does only a couple of weeks after the last of a number of memorable and spectacular events marking the Centenary Celebrations of the Country Club Johannesburg. Being only 20 years younger than the city of Johannesburg, the Country Club Johannesburg is indeed an inseparable part of the heritage and history of this magnificent city.

### **2. History of the city**

It appears that there is no consensus among the historians about who gave this city the name Johannesburg. There is no dispute, however, that it was named after a man called Johann. Johann was a common Dutch name and remains so to this day. I would not be surprised if it is the most common name in the South African Reserve Bank at the moment. I guess that there could be many Johanns who can lay claim to having given the name.

Apparently Johannesburg was proclaimed in a hurry as gold prospectors had begun flooding the place. In fact ten years had passed before anyone sought to enquire about the origin of the name. Many versions have been recorded by historians, including one claiming that the original name was Johannesburg, which was reportedly changed to Johannesburg as it was difficult to pronounce.

The history of Johannesburg is very fascinating indeed. Just over 100 years ago, what is today the economic and financial centre of South Africa was an endless untouched savannah. This changed very fast when gold was discovered. This history is littered with many pioneers who suspected that there was gold in the area. After all gold had been found a few hundred kilometres to the east in Barberton. Some prospectors spent years buying up land, digging, trying to find the yellow ore, but nothing substantial was found. George Harrison has to his credit the discovery of gold on the farm Langlaagte in 1886. This marked the beginning of Johannesburg, which was declared a city in 1928.

Gold diggers and fortune hunters arrived in droves and soon a tent town sprung up, later to become the city that is now South Africa's main commercial hub. Gold was the catalyst which brought Johannesburg into being and the city's identity continues to be closely linked with the yellow ore. The mine dumps that surround the city are a lasting reminder of the city's origins. This city is appropriately called eGoli, Nguni for gold.

The gold rush shantytowns that sprang up were transformed into a modern concrete city, Johannesburg, and the economic boom engulfed the entire country. The revenue generated from gold has enabled the country to develop its impressive industrial, commercial and financial strength. Today Johannesburg is a modern city in every sense – tall skyscrapers, a complex network of freeways, a bustling metropolis of industry and commerce and a hub to which people are drawn. According to the Human Sciences Research Council, the city of Johannesburg has a population which is conservatively estimated to be over three million.

### **3. A world-class financial centre**

The discovery of gold led to the establishment of many mining and financial companies, leading to the development of a stock exchange. On November 8, 1887, the Johannesburg Stock Exchange was established and trading was moved around the city several times as the trading halls became too small to accommodate the amount of trading and number of traders. In 1978 the Stock exchange

moved to the historic Diagonal Street, before leaving the city centre for its current location in Sandton in 2000.

The JSE Limited is the largest stock exchange in Africa and is ranked among the top 20 major equity exchanges in the world. At the end of 2006, the JSE had a market capitalisation of R5,7 trillion, with 388 companies listed on the exchange. Turnover on the JSE has shown strong growth over recent years, increasing from an annual turnover of R1 279 billion in 2005 to R2 100 billion in 2006.

One is encouraged to learn of plans by the JSE Limited to construct a Pan-African exchange which will initially allow investors to trade in shares from Ghana, Namibia and Zambia, and later develop to cover the rest of Africa. These are bold steps towards making Johannesburg a financial centre for the continent.

The Bond Exchange of South Africa (Besa) also resides in this great city. As at 31 December 2006, Besa had granted a listing to 725 debt securities, issued by 91 borrowers, with a total nominal value of R725 billion – equal to just over 47 per cent of gross domestic product (GDP). Government bonds comprise around 60 per cent of the bonds listed on Besa, with the rest consisting of bonds issued by parastatals and corporates. Corporate bond issuances are currently increasing at a much faster rate than government bond issuances. In fact, on a net basis so far in 2007, government is redeemer of bonds. The annual turnover on Besa has increased from R8,1 trillion in 2005 to R11,6 trillion in 2006. The annual turnover is currently about 38 times the market capitalisation, indicating a very liquid market. In the current year to date, the turnover on Besa is R5,4 trillion.

The City of Johannesburg has contributed to the development of the bond market, being the first and only municipality in South Africa to issue a bond. The City of Johannesburg launched several municipal bonds since 2004, the first being a R1-billion bond, which was neither guaranteed by government nor secured by city assets. However, this bond issue had an overwhelmingly positive response from the market, clearing at a spread of 230 basis points above the R153 government bond. This bond is currently trading at a spread of 90. The second bond issued was also a R1-billion bond, partially guaranteed, issued at a spread of 164 basis points above the R157 government bond, was last trading at 120 basis points. Two further bonds were later issued and were also well received by the market as they were issued at spreads of 154 and 120 basis points above the R157 respectively, and are now trading at compressed spreads of 105 and 104 basis points respectively.

The city of Johannesburg is at a mature stage to issue paper without any guarantee as the city now has a long-term debt rating of A+. With this improved credit rating and the narrowing of spreads, it is very clear that the city of Johannesburg has a good standing as a borrower in its own right. It is not surprising then that they have undertaken a medium term note programme under which they can issue paper to a total tune of R6-billion. Actually the last bond was issued under this programme.

Non-residents are active participants in the South African capital markets, accounting for around 20 per cent of daily turnover on both the JSE and Besa. The participation of non-residents in the domestic financial markets is facilitated by a liquid market for foreign exchange. The average daily turnover against rand in the South African foreign exchange market is around USD10 billion, and non-residents account for around 65 per cent of these transactions.

While gold was the initial magnet that attracted and spawned entrepreneurship, today only a few of the mining operations in Johannesburg are still active. Not only have the mining dumps formed a lasting landscape, Johannesburg has developed into a modern financial city. One of the five-year strategic objectives identified in the City's Integrated Development Programme is improving the profile of Johannesburg, both on the continent and internationally, as a core centre of finance, business and trade. This is to be attained by, among other things, improved liaison with key partners in the business community to define what the City can do over the longer term to help consolidate, protect and enhance Johannesburg's position in this regard.

#### **4. A globally competitive city-region**

Although the smallest in size compared to the other provinces, Gauteng is the economic and financial powerhouse of South Africa and the centre of the country's commerce and industry. The Gauteng province contributes 34,2 per cent of the country's GDP, 47,2 per cent of all employee remuneration and 51,4 per cent of all institutions' turnover.

Johannesburg accounts for 40 per cent of the economy of Gauteng and enjoys the unchallenged status of being the economic capital of the country and the subcontinent. Johannesburg is the

continent's only world city and a regional motor in the global economy. The city's share of the national economy constitutes about 16 per cent. It is, therefore, obvious that the economic performance of a city like Johannesburg becomes critical not only to the province in which it resides but to the country as whole.

To a very large extent, it is the economic logic stemming out of this reality that informs the growth and development strategies of both the city and the province. Central to both strategies is the strengthening of Gauteng's position as a global city-region, in recognition of the pivotal role played by cities in modern economies, political, social and environmental trends. City regions are not based on administrative boundaries but rather lay emphasis more on social and economic functional geography. Also, some recent research suggests that strong city-regions are a *necessary* – even though they may not be a *sufficient* – condition for ensuring optimal economic growth. Final report of a study entitled: *A framework for City-Regions*, commissioned in December 2004 by the Office of the Deputy Prime Minister in the United Kingdom.

The Gauteng Growth and Development Strategy recognises the advantages of co-operating internally to compete externally. To this end, it advocates the development of a strategy to build Gauteng as an integrated globally competitive region where the economic activities of the different parts of the province complement each other in consolidating Gauteng as an economic hub and an internationally recognised global city region. The City has identified key focus areas for engagement in respect of this vision.

## **5. Challenges**

The City's vision statement visualises Johannesburg in 25-30 years thus: "... a more equitable and spatially integrated city, very different from the divided city of the past. In this world class African city for all, everyone will be able to enjoy decent accommodation, excellent services, the highest standards of health and safety, access to participatory governance, and quality community life in sustainable neighbourhoods and vibrant urban spaces."

On the way towards that vision, however, the City's 2006-2011 Integrated Development Programme recognises the enormous challenges faced by the city and spells out clear five-year objectives and programmes of action. It identifies Six Mayoral Priorities as: economic growth and job creation; health and community development; housing and services; safe, clean and green city; well-governed and managed city; and the fight HIV/AIDS.

Except for economic growth and job creation, I do not think the list is in order of priority. Of course safety is a big issue as far as Johannesburg is concerned and, in particular, the central business district (CBD). This concern has led to many shops and offices moving to the northern suburbs. It is gratifying that measures have been taken by both the business community and the local government to reverse this trend. The installation of the CCTV cameras has led to crime levels in the inner city dropping considerably. The City's Crime Prevention Programme seeks to focus on crimes that affect business and impact on perceptions of Johannesburg to reduce real and perceived risks to investment.

## **6. Sporting achievements**

This city boasts a broad range of sporting achievements. In 1995 it played host to the final of Rugby World Cup final that was won by South Africa. The following year the city hosted the final of the African Cup of Nations which South Africa won. This city also hosted the All-Africa games in athletics in 1999. In 2003 the city also hosted the final of the Cricket World Cup. It is therefore not surprising that Johannesburg looks forward to hosting the FIFA World Cup final in 2010!

## **7. Conclusion**

All these lofty plans, programmes and strategies recognise the centrality of economic growth towards the attainment of other policy objectives, particularly the reduction of unemployment and poverty. The primary mandate of the South African Reserve Bank remains the achievement and maintenance of price stability. Maintaining low inflation contributes enormously towards the attainment of high and

sustainable rates of economic growth and employment and maintenance of overall macroeconomic stability.

Thank you for your attention.