

T T Mboweni: The benefits of being a good host – the FIFA World Cup and the South African economy

Address by Mr T T Mboweni, Governor of the South African Reserve Bank, at the Corporatesport Directors' Dinner, Johannesburg, 20 March 2007.

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Honoured guests
Ladies and Gentlemen:

1. Introduction

It is not often that I land up sharing the podium with someone like Mr Jake White, coach of our national rugby team. After all, what does a sports coach and a central bank Governor have in common? This is probably a question that some of you are currently pondering over. Perhaps, one common aspect centres around the target that both of us have. For Mr White it is to win matches and tournaments, while in my case it is to ensure that inflation remains within the target range. There is a subtle difference however. As long as Mr White meets his target, then everyone is happy (apart from the opposition). Meeting the inflation target does not necessarily keep all South Africans happy – this is particularly evident when we have to increase interest rates in order to keep inflationary pressures in check. Consumers, and usually the highly indebted ones, always complain when there are increases in interest rates while pensioners argue that it is a case of too little too late. So the issue of whose job is easier is still very much an open question. However, I am definitely not going to get involved in a scrum or a lineout with Jake in order to answer this question. I have no intention of giving away a penalty, being sin-binned or being cited afterwards. Whatever the case, I do not think that we should swap roles. I don't know how Mr White would do as a central banker, but I am certain that the national team is better off not having me as their coach.

I feel on safer ground sharing a platform with Mr Tim Modise. Both of our jobs involve communication, and he communicates on behalf of a sport that I passionately follow. I am an ardent Kaizer Chiefs supporter, but regrettably we will have to wait till next year for renewed league glory. I am pleased at least that if it is not my team that is leading the pack, it is a team from Tshwane where the Bank is based. I will leave rugby to Mr White, and let me rather use this occasion to highlight some of the economic benefits for South Africa of hosting major international events, in particular sporting events such as the FIFA World Cup.

2. Hosting of mega events

The wave of globalisation that has swept across the world for more than two decades has had an impact on communities beyond the economic and financial spheres. It has also impacted on the way in which global communities interact in areas such as education and sport. As the world becomes increasingly integrated, more opportunities have emerged for countries to host and organise what today have become known as mega events. Since 1994, South Africa has become an important venue for hosting such events.

Hosting major sporting, cultural and economic events is of significance for many countries since it can provide an important catalyst for growth and development. As a result of this potential, professionals from various disciplines such as marketing, finance, economics and tourism have shown increased interest in understanding the dynamics of hosting mega events. Today, universities in the United States of America, the United Kingdom and Australia offer courses on various aspects of sport education, including sport marketing and sport tourism. This trend is also becoming evident in South African tertiary education and is likely to intensify in the future.

South Africa has had its fair share of hosting major sporting events since 1994 such as the African Cup of Nations in 1994, the Rugby World Cup in 1995, and the Cricket World Cup in 2003. In addition, South Africa has also hosted major conferences which have attracted global interest. The most important of these have inter alia included the United Nations Conference on Sustainable Growth in 2002 which attracted more than 60 000 delegates, as well as the United Nations Conference on

Racism in 2001, to mention but a few. Major conference and convention centres have been built in most of our major cities and most of them have had a high degree of utilisation.

This year, the South African Reserve Bank in collaboration with the South African National Treasury will be hosting the G-20 meeting of Ministers of Finance and Central Bank Governors. Preparations for this meeting will be ongoing for most of the year. Preparatory meetings are held both in South Africa and other member countries. These events will attract high level officials to South Africa from the world's most important economies. Three major meetings will be held in South Africa during the course of this year.

Apart from successfully hosting these events, South Africa has also bid to host the two most important global sporting spectacles, namely the 2006 FIFA World Cup finals and Cape Town's bid to host the 2004 Olympic Games. South Africa narrowly failed to win these bids, but fortunately our second attempt to host the FIFA World Cup finals was successful and as you all know, we will be hosting the event in 2010.

3. The economic implications of hosting mega events

There has been growing interest in the economic consequences of hosting mega events. The economic advantages of hosting such events do not automatically outweigh the costs. In an environment of scarce resources, the opportunity costs of hosting mega events always attract close scrutiny. Governments are generally required to commit considerable resources to hosting these events; resources that could have been used elsewhere in the economy. In some instances, this may involve an acceleration of spending, an additional allocation or a diversion of expenditure from other uses or regions. For example, a successful bid for the 2004 Olympic Games could have seen resources being diverted from other areas of the country to Cape Town, whereas the World Cup games should see a wider distribution of benefits.

A further problem relates to correctly estimating the costs. For example, it was reported last Thursday that the expected cost of the London Olympic Games in 2012 is already more than four times higher than estimated at the time of the successful bid. Finally, these costs have to be weighed up against the expected revenue and other positive spin-offs, which are also difficult to quantify. In many instances, the revenue stream remains long after the event is held, but so does the financing of the costs.

Numerous studies have been commissioned in various countries to determine the economic and financial implications of hosting mega events See Bohlmann H R: Predicting the Economic Impact of the 2010 FIFA World Cup on South Africa. May, 2005. University of Pretoria. Working paper 2006-11, for a review of these studies. The Montreal Olympic Games in 1976 are considered by many to have been an economic and financial failure. Hosting the Olympics in Montreal plunged the city into a huge debt burden which was only repaid in full in recent years. Similarly, studies have shown that the benefits to Korea from hosting the FIFA World Cup finals in 2002 fell far short of initial expectations. The country was left with an over-supply of large stadiums, some of which have subsequently been demolished.

Notwithstanding these negative outcomes, most countries reap a positive net benefit from hosting these events. The broad conclusion is that proper planning for mega events tends to generate positive spin-offs both in the short and long run.

A study conducted by the Los Angeles Sports and Entertainment Commission following the 1984 Los Angeles Olympic Games estimated that income from tourism increased by almost US\$9 billion as a result of hosting the games. The study concluded that hosting major events could be beneficial to cities if carefully planned.

The Barcelona Olympic Games of 1988 are today considered a model of how to plan for a mega event. The Barcelona Games were integrated into an urban renewal strategy and the economic outcome of Barcelona hosting the Olympic Games was significant. Unemployment in Barcelona was reduced significantly from 18.4 per cent to 9.6 per cent between 1986 and 1992 and from 20.9 per cent to 15.5 per cent in the country as a whole. Overall growth in Barcelona is said to have increased at a pace never seen before, even a decade after hosting the Games.

Similarly, the Sydney Olympic Games which took place in 2000 were planned in such a way as to generate positive spin-offs well beyond the actual event. In the case of Sydney, city planners focused on infrastructural development of the venues for the games such that these venues could be used for

subsequent sporting events. It has been claimed that the Sydney Olympic Games were beyond a sporting triumph.

As we are all aware, South Africa has won the 2010 FIFA World Cup finals bid and preparations to host this event are in progress. There is considerable reputational risk associated with the hosting of the 2010 World Cup finals, and the success of the World Cup finals in Germany puts even more pressure on us to raise the bar. We stand to benefit from the experience and advice of countries that have successfully hosted similar events. As I noted earlier, we have already hosted numerous events, although none perhaps on the scale of the FIFA World Cup finals.

Research has shown that South Africa also stands to benefit from hosting the 2010 FIFA World Cup finals. According to a Grant Thornton study conducted in 2003, the event is expected to contribute about R21 billion for the economy as a whole, generate about R7 billion in tax revenue and create about 150 000 jobs. It is not possible to fully and accurately estimate the potential gains to the economy from hosting the World Cup finals ex-ante. However, there is little doubt that with proper planning and interventions by all the relevant stakeholders the potential benefits can be maximised. The spin-offs in terms of tourism, communications and television technology, transport infrastructure to name but a few are significant. Tourism has become an increasingly important source of revenue to the economy and now accounts for about 10 per cent of total export receipts, almost double that of 10 years ago. This number is expected to increase further as a result of the World Cup finals.

4. Growth and investment in South Africa

Preparations for the World Cup come at a time when the economy has been experiencing strong economic growth. The persistent adherence to prudent macroeconomic policies by the authorities has resulted in the country's solid economic performance in recent years. South Africa has experienced the longest upswing in its business cycle lasting almost 7.5 years to date. The average growth rate between 1994 and 2003 measured around 3 per cent, but in the last 3 years, growth has averaged 5 per cent. In the fourth quarter of 2006, annualised growth measured 5,6 per cent. The growth has been spread across all sectors of the economy with the exception of agriculture.

Underpinning this strong growth has been a positive trend in investment growth. It is of interest to note that gross fixed capital formation as a ratio to GDP was around 12 per cent at the beginning of the decade. It is now around 19 per cent. This is a significant shift in the economy which we should not lose sight of, and a trend that is likely to continue in the light of the Government's Asgisa growth strategy. Central to this strategy is a strong focus on infrastructural investment. As indicated in the latest Budget Review, government and public enterprise infrastructure expenditure over the next 3 years is estimated to amount to R416 billion. This investment should not only raise current growth, but will also allow for sustained future growth over the medium to long term through improved transport, communication and electricity provision. These improvements are expected to ease bottlenecks to current and future growth and exports. This is particularly the case when it comes to investment in transport infrastructure, whether rail, air, road or the ports.

Government has made special budgetary allocations totaling R8,4 billion for the building of stadiums. This is in addition to what municipalities have committed. Furthermore, over R9 billion will be allocated by national government for municipal transport, roads and precinct upgrades relating to the World Cup games. Apart from these budget provisions, the investment requirements for the event dovetail well with the planned infrastructural investment over the next few years. The 2010 World Cup finals will help to maintain the focus on infrastructural and investment expenditure projects such as the Gautrain, new stadiums and communications technology, to name a few. Much needed airport expansions are also taking place in anticipation of an influx of tourists for this event. As noted in the latest Budget speech by the Minister of Finance, the impetus provided by the World Cup has resulted in a revolution in municipal planning for public transport and forward thinking about urban development.

5. The World Cup and monetary policy

Where does monetary policy fit in to all of this? Of course, when the World Cup finals begin in 2010 we will be keen spectators and supporters of Bafana Bafana, but there is not much we can do to directly impact on the fortunes of the team. I will leave that in the capable hands of Mr Carlos Parreira and his team. We have to keep our eyes on a different ball and a different goal. Through this exciting growth

phase that we are experiencing, monetary policy has to ensure that inflation is kept under control. In other words we have to ensure that we maintain inflation within the 3-6 per cent target for CPIX.

Excessively high growth brings with it potential inflationary pressures which monetary policy has to be sensitive to. In economic parlance, this refers to the output gap, which is the difference between the potential non-inflationary output of the economy and actual output. From a monetary policy perspective, we have to determine whether the growth we are experiencing is purely cyclical. If this is the case, we are likely to experience inflationary pressures which would require a reaction on our part. However if the current growth trend is structural, that is, if it reflects an increase in the potential output of the economy then these developments are not necessarily inflationary and are sustainable.

Unfortunately, estimating potential output is not a simple task and estimates are subject to a high degree of uncertainty. Our view is that in the light of the enormous structural changes and productivity growth in the economy, much of the higher growth we have experienced in recent years is of a structural nature. Current research in the Bank estimates that the potential output of the economy is now at least around 4,5 per cent or more. This can be compared to estimates of around 3 per cent or less during the 1990s. We appear to be well on the way to achieving the 6 per cent sustainable growth that Asgisa is targeting, and the spin-offs from events such as the FIFA games will go a long way towards ensuring that this is a sustainable story. At the same time, monetary policy will have to remain vigilant to ensure that growth occurs in a stable macroeconomic environment of price stability.

6. Growth and the current account of the balance of payments

One of the consequences of high growth and investment has been an expanding deficit on the current account of the balance of payments. In recent months, international financial markets have viewed current account deficit countries as being more vulnerable to capital movements and consequently to exchange rate adjustments. Current account deficits in excess of 6 per cent of GDP have appeared in South Africa during the course of last year and caused quite a bit of excitement in the analyst community.

In the fourth quarter of last year we experienced a significant widening in the current account deficit, with the deficit on the trade account of the balance of payments having more than doubled from the third to the fourth quarter of 2006. As we noted in the last MPC statement, much of the import momentum in the fourth quarter, however, can be ascribed to the 140 per cent increase in the volume of oil imports compared to the third quarter. It is important to highlight that the related inventory build-up appears to be exceptional and it is unlikely that oil imports will be sustained at these levels. In fact, had there been the normal import volumes of oil during the final quarter of last year, the deficit-to-GDP ratio for that quarter would have been comfortably less than 6 per cent of GDP.

South Africa has been able to finance the current account deficit with relative ease precisely because of the positive growth prospects in South Africa. It also needs to be pointed out that the current account deficit also represents the other side of the coin of robust capital expenditure and the growth the country has been experiencing. A substantial part of increased imports have been capital goods and intermediate goods, which will contribute to the increase in the productive capacity of the economy and increased exports going forward.

The MPC will continue to monitor the developments around the current account deficit and the potential risk to the inflation outlook stemming from possible currency depreciation. It is, however, important for the market to analyse the drivers of the current account deficit, understand the underlying trends and qualitative dimensions rather than to concentrate on what the mere figure as a percentage of GDP is and possibly draw inappropriate conclusions.

7. Conclusion

There is a big difference between winning the bid for the World Cup finals, and adequately preparing for this event. While we cannot afford to be complacent, I am convinced that South Africa has what it takes to successfully host this event and to reap positive benefits for the economy as a whole. We should embrace the opportunities of hosting mega events as part of the process of creating more opportunities for all of our citizens. The World Cup finals attract a huge global audience, apart from the actual visitors, and such exposure can only be positive for the country.

Finally, we have a busy sporting year ahead of us, with the current cricket world cup games on the go, and the rugby World Cup finals just around the corner. In monetary policy decision making, we rely somewhat on our forecasts for inflation. My current central forecast is that both the cricket and rugby teams are going to do well this year. As with any forecast, we have to assess the risks to the forecast. In both cases I would venture to say that the risks are firmly on the positive side, and that there is a good probability that we will be showing off two lots of silverware by the end of this year. Allow me to wish Mr White and the Springboks all the best in their endeavours in the rugby World Cup finals in France. We are fully behind you and believe that you have what it takes to bring the cup home. You dare not disappoint the people of South Africa.

I thank you.