

Francois Groepe: The role of Chartered Accountants in grass roots development and accelerating the realisation and economic emancipation of the majority in South Africa through better management of government resources and efficiently delivering services to the masses

Address by Mr Francois Groepe, Deputy Governor of the South African Reserve Bank, at the launch of SAICA Northern Region Trainees Committee, Park Town, 29 November 2012.

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I wish to thank SAICA and the Chairperson of the SAICA Northern Region Trainees Committee for inviting me to speak and to be part of this momentous occasion. I believe that the topic is very relevant against the backdrop of the significant levels of inequality in our country as reflected in the most recently estimated Gini-coefficient of 0,69. The top ten per cent of the population earn approximately 58 per cent of the income and the bottom 50 per cent less than eight per cent. We furthermore have had to contend with an unemployment rate currently of 25,5 per cent in the third quarter of this year, much of it likely structural.

Global economy

In considering the economic conditions in South Africa, one is compelled to take cognisance of global economic developments due to the impact they have on local economic developments and the risks of spillover. Economic activity in both the advanced economies and the emerging market economies continue to disappoint, while continued uncertainty further weighs on the outlook. Although the US recorded an uptick in growth in Q3/2012, there is an expectation of lower growth in 2013, due to the risk of a fiscal cliff. In the event that the fiscal cliff is avoided, there remains a real possibility that the agreed settlement may include some degree of fiscal consolidation as well as an increase in the effective taxation rates, which may act as a drag on consumption expenditure.

The Euro area contracted in Q3/2012 and is now in technical recession. There is a possibility that recessionary conditions may continue for two reasons, namely:

- An accentuated drag on growth due to the continued fiscal austerity measures, amidst indications that fiscal multipliers may be higher than previously estimated; and
- A number of the leading indicators seem to suggest that growth prospects are tilted to the downside.

Unemployment levels in Europe remain at elevated levels historically, the social implications of which should not be underestimated. A further concern is that cyclical unemployment could evolve into structural unemployment. This could add a further dimension to an already challenging and complex set of circumstances.

Emerging market economies have decelerated recently and this has spilled over and amongst others, impacted negatively on world trade volumes.

Domestic economy

South Africa continues to suffer from the aftermath of the tragic events that occurred recently. Economic activity has slowed down sharply, particularly in the mining sector. The recent downgrade of the country's sovereign credit rating, as well as increased uncertainty, may impact negatively on both FDI as well as investment by the household sector.

The export performance of domestic companies continues to deteriorate. Latest estimates by the SARB show that the country's global exports have declined over the past 50 years. Some of the factors contributing to this trend in recent times are:

- (i) The decline in the contribution of gold mining sector to growth and the decline in the role of gold globally;
- (ii) Binding constraints related to infrastructure bottlenecks;
- (iii) Skills shortages and mismatch;
- (iv) The dominance of low-cost production bases which are export oriented in many emerging market economies; and
- (v) Sluggish growth in SA's key trading partners.

Economic activity on the production side has changed noticeably when compared to the 1980s. The agriculture and mining (primary) sectors have shrunk since then and contribute less than 5 per cent to GDP. Although the manufacturing sector has shrunk as well, it contributes roughly around 15 per cent. Significant growth has emanated from the tertiary sector, with finance, insurance, real estate and the business services sector contributing around 21 per cent. Government services have also aided economic activity in line with the countercyclical spending.

On the expenditure side, growth has been largely driven by final demand – in particular consumption expenditure by households. Consumption expenditure by general government, which has been driven by countercyclical fiscal policy, in particular on-going spending on the expanded public works programme, which is aimed at labour intensive infrastructure projects. However, under-spending by national, provincial and local governments continued to subtract from growth in capital formation, in particular social infrastructure.

At some level, albeit at non-spectacular growth rates, all of these factors have helped with dealing with the cyclical aspect of unemployment, although since the beginning of the most recent recession, the unemployment rate has risen and hovers above 25 per cent.

In the period 2004 to 2007, the average annual growth rate was well above 4 per cent and unemployment reached a record low level of 21 per cent. This is an indication that sustained elevated growth rates are required to reduce the levels of unemployment in a meaningful manner.

Role of chartered accountants

In the most recent World Competiveness Report, the deteriorating state capacity was one of the areas that contributed to the slide in the country's ranking to 52nd place out of 144 countries that were ranked. Some of the more problematic areas identified included an inefficient bureaucracy, corruption and policy instability.

On the positive side South Africa was recognised to be at the forefront of governance and was ranked number one in the following areas:

- Strength of Auditing and reporting;
- Regulation of securities exchange; and
- Efficacy of corporate Boards;

It is therefore evident that South Africa's auditing and accounting professionals are among the best in the world, and I do believe that accountants have an important role to play in ensuring that some of the structural challenges in this country are addressed effectively. The profession can make a tangible contribution towards ensuring that the public sector is capacitated to deal with its many challenges, using the skills and aptitude that members

acquire during their academic and practical training, and which include skills such as analytical ability, professionalism, integrity, understanding complexity, etc.

It is also important that members of the profession respond positively to the call of public service and that members do not only become service providers to the public sector, but that they also join the ranks of the public service in order to address the shortage of skills within that sector. In this context they have much to contribute to root out corruption, design monitoring and early warning systems so as to ensure improved service delivery, institute controls that would minimise instances of wasteful and fruitless expenditure, design reports so that politicians and officials have access to accurate and timely information, and which should contribute to improved decision-making and policy outcomes.

Conclusion

In conclusion, in order for us as a country to move forward it is important that we all own up to the responsibility that we have to ensure that South Africa reaches its full potential and that it thrives and succeeds at all levels. Our challenges are daunting but not insurmountable! If we all display a positive 'can do' attitude and one that places the national interest first, we can achieve higher levels of economic growth, reduce the stubborn levels of unemployment and successfully address the dual challenge of poverty and inequality.

The time has come for us to adopt an attitude of 'South Africa First' and to respond affirmatively to a similar challenge JF Kennedy put to his compatriots during his inaugural speech, "And so, my fellow Americans: ask not what your country can do for you... ask what you can do for your country."

So let us all begin by asking what we as loyal and committed South Africans can do for our country, South Africa, and let us strive to be the change we would so much like to see.

I thank you.