

Gill Marcus: Creating the conditions for growth in South Africa

Graduation speech by Ms Gill Marcus, Governor of the South African Reserve Bank, at the Central University of Technology, Bloemfontein, 11 March 2014.

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Good evening ladies and gentlemen. Good evening to Professor Thandwa Zizwe Mthembu, Vice Chancellor and Principal of the Central University of Technology. I am humbled by the honour you and your institution have bestowed on me tonight. While you are awarding this honour to me, I feel that this tribute is also in recognition of the efforts of many others, not just in the struggle against apartheid, but also in the on-going endeavours since 1994 to make South Africa a better place for all who live in it.

Societies that are making progress are those in which the present generation enjoys a better standard of living than their parents. In many countries this can no longer be taken for granted. Slow economic growth, high levels of debt, poorly performing education systems, unacceptably high levels of long term unemployment and the rising cost of ageing societies imply that for many in the advanced world the long-standing trend of children being better educated than their parents and enjoying higher incomes appears to be slowing, or perhaps even reversing. Fortunately, South Africa is not in this group of countries and today's generation enjoys a higher standard of living than their parents. In most families there is confidence and optimism that the children will do better than their parents.

Our economy has grown steadily since 1994, with incomes per capita over a third higher than in 1994. Employment has increased, with formal sector employment having risen from about 7 million 20 years ago to about 11 million today. The global financial crisis, which emanated from the advanced economies, set us and other emerging market countries back somewhat. Despite this, employment is rising and our economy is expanding, although more slowly than we would like, and the unemployment rate, at just over 24 percent, remains unacceptably high.

South Africa has also made meaningful strides in social development. School enrolment is almost universal, school completion rates amongst Africans has increased sharply, enrolment at universities has more than doubled and an increasing proportion of students are taking science, engineering and technology courses. This is very important as our economy, in line with global trends and the rapid advances of technology, has become more skills and knowledge intensive, with skilled workers earning a growing share of the economic cake. This trend poses a challenge given that the vast majority of South Africans experienced a history of inferior quality education. The efforts of this university bears testimony to efforts to broaden access to quality education. Notwithstanding the progress, greater efforts are needed to address the legacy of our past.

Even though our economy has improved significantly from twenty years ago, the recent period has been difficult. The world is in its sixth year of economic crisis. While most countries are out of recession, the crisis itself has not ended. Measures taken to address the unfolding crisis had unintended consequences resulting in a constant mutation – for instance from a sub-prime crisis in the US affecting home owners and lenders to a systemic banking crisis; from a systemic banking crisis to a fiscal deficit and sovereign debt crisis in many countries in Europe; from a wave of significant capital inflows and appreciating currencies in emerging economies to where more recently emerging markets have had to deal with a reversal of these flows and depreciating currencies, at a time when many of them are also facing rising inflation and slowing growth.

What is consistent through this period is that growth is slower than historical averages, unemployment is higher and in particular youth unemployment, globally, is a major challenge standing at over 50 percent in a number of countries, including our own. The International

Labour Organisation projects that unemployment levels are only likely to reach pre-crisis levels by 2017, a full ten years from the start of the crisis. Ten years is a long time in the life of any person. The effects in terms of human suffering, reduced household savings, long term unemployment, skills atrophy and lost investment are likely to endure for an even longer period.

The US economic recovery is still fragile and risks remain. The recovery in the US, still the largest economy in the world, is a positive factor for the rest of the world. However, partly as a consequence of higher growth, the reduction in their quantitative easing programme, whereby the Fed is reducing its asset purchasing programme by US\$10bn per month, is having detrimental effects on many emerging markets and an unsettling effect on financial markets globally. Growth rates have slowed in major emerging markets such as China, India and Brazil. Many developing countries, from Turkey to Venezuela, are battling both domestic economic challenges and capital outflows. However, Africa remains a bright spot in the world economy with sub-Saharan African growth at over 5 per cent a year, providing significant opportunities to South African investors and companies.

The hesitant recovery in the global economy, and particularly in Europe, is negatively affecting South Africa's growth performance. The South African economy grew by just 1.9 per cent in 2013, far below potential of around 3.5 per cent. Although the Reserve Bank projects an improved growth rate of 2.8 percent growth for this year, it is still too low to make a meaningful dent in our unemployment rate. Demand for our main exports is growing slowly and trading conditions for most firms remain difficult. In addition to global factors, South Africa's economic growth is also being adversely affected by a number of domestic factors including electricity supply constraints, strike action in key export sectors and infrastructure bottlenecks. In addition, the economy is constrained by persistent shortages of skilled labour that lowers our growth potential.

For monetary policy, the present environment presents a dilemma of slowing growth on the one hand, but rising inflation on the other. Given the fragile growth environment, the Reserve Bank has been more tolerant of inflation at the upper end of the target range for some time. However, the recent marked deterioration of our inflation forecast led the Monetary Policy Committee to raise interest rates for the first time in six years. Notwithstanding this increase, monetary policy remains accommodative, and the MPC will continue to focus on its core mandate of price stability, but with due regard to the impact of its actions on economic activity.

Economic growth needs to be driven by real investment, and currently growth in private sector investment has been relatively subdued. Government's massive infrastructure programme is essential to eliminate bottlenecks and shortages, thereby contributing to raising long term growth and productivity in the economy. The implementation of the National Development Plan will also support growth and investment as it is focused on raising our capabilities as a country and investing in our human resources. Over the next two decades, South Africa needs to raise its productivity levels, boost exports and ensure that not only do we significantly raise the rate of economic growth, but that it is also more inclusive.

There are three core challenges that today's world faces: food, water and energy. To briefly expand on just one aspect: by 2050, the world will need to produce about 80 percent more food than today to satisfy growing populations and rising food consumption. Africa contains the largest proportion of underutilised arable land on the planet.

This provides a huge opportunity for investment, not just in agriculture but in agro-processing, in water management, in roads and ports and in cold storage facilities. South African firms in the agricultural and agro-processing sector have the expertise, the know-how and the capital to invest in food production and processing on the continent. Again, there are strong backward linkages between such investments abroad and jobs back home.

It is often said that all economic progress is about moving up the value chain, producing ever more complex products. This can only be done through partnership and cooperation between

the state, the private sector and our education and research communities. A major area of focus for the country is the manufacturing sector. Manufacturing is important because it is a sector where productivity levels are already relatively high and the sector is able to generate well-paying jobs for millions of people. A major obstacle to faster growth in manufacturing has been a shortage of high level technical skills. That is where you come in. This university is at the cutting edge of producing the type of skills required for our manufacturing sector to move up the value chain, to enhance productivity and grow our exports.

The Central University of Technology is the home of the Centre for Rapid Prototyping and Manufacturing. This university, supported by the National Research Foundation, is investing heavily in research in 'additive manufacturing', also known as 3D printing. 3D printing is likely to revolutionise aspects of manufacturing, lowering barriers to entry and allowing mid-sized economies to compete more effectively with other global players. These are exciting developments and I have no doubt that this university will play a greater role in helping our country to develop its advanced manufacturing sector.

In conclusion ladies and gentlemen, despite significant challenges, South Africa as a nation is in the process of determining its future; it is a country that is growing, and with that growth comes opportunities. We must continuously raise the quality of our education system; continuously keep up with the best developments globally so that we can produce young graduates who are at the cutting edge of the fields that they enter; young people who will shape the future, drawing on the extraordinary strengths of all South Africans. The future is contested terrain, and it will be determined by our vision of what that future could be and what we, together, do. It is largely in your hands now.

Again, thank you for this honorary doctorate. I humbly accept it on behalf of all South Africans who are making a contribution to build a non-racial, democratic and prosperous South Africa.

Thank you.