Providing prosperity for all

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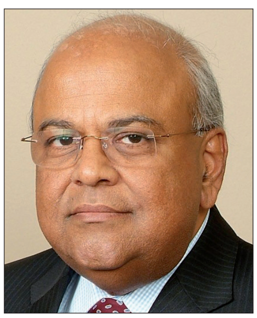

PRAVIN GORDHAN has been South Africa's Finance Minister since 11th May 2009. He holds a Bachelor of Pharmacy degree from the University of Durban Westville and honorary doctorates from the University of South Africa, University of Cape Town and the Free State Central University of Technology. He served as Commissioner of the South African Revenue Service for almost 10 years. He was involved in a number of anti-apartheid organisations including the African National Congress and the South African Communist Party.

This year, South Africa will host the 2010 FIFA World Cup. The organising of the tournament and the investment that has gone into preparing for the tournament has been on a scale not seen in South Africa before. The fact that South Africa has completed all its major infrastructure investments on time and is able to organise an event of this magnitude during the deepest economic recession in decades is testimony to South Africa's maturity as an emerging market.

In 2009, South Africa had a smooth political transition to a new administration. In the same year, however, the country fell into a recession, its first in 17 years. This was brought about largely as a result of the downturn in global economic activity as a result of the financial crisis. The recession took a toll on South Africans, with some 870,000 people losing their jobs in 2009 and households facing falling incomes and high levels of debt.

South Africa entered this period with a solid record of economic management, with successive layers of reform since 1994 contributing to an acceleration of economic growth and employment in the period 2001-08. Strong growth and sound fiscal management have enabled significant redistribution of income, expansion of social infrastructure and broadening of opportunities for the population.

When the economic crisis hit our shores, the South African government was able to respond by sustaining growth in public spending – allowing us to build on the public-sector investment programme already under way, expand public employment programmes, broaden our social security net, continue to invest in education, health and other public services; and to support well-targeted industrial development. These elements provide a counter-cyclical boost to the economy that will assist in sustaining growth and minimising further job losses. There are already strong indications that South Africa has exited the recession with recent figures pointing to GDP growth of 3.2 per cent in the last quarter of 2009.

In February, President Zuma delivered his 2010 State of the Nation Address, which signalled a new approach and committed government to:

• Delivering more and better services in a caring and efficient manner;
• Holding political office bearers and public servants accountable;
• Shifting resources to new priorities;
• Moving from debate to effective implementation and decisive action;
• Working in partnership with communities, labour and business to achieve our shared objectives.

The budget tabled following the President's address sets out how government will deliver on these commitments within the difficult economic and fiscal context facing all countries. As South Africa emerges from recession, the policy focus is shifting from stabilising the economy to raising our trend growth rates and increasing employment. Our future depends on finding a more inclusive economic trajectory, characterised by more rapid growth in gross domestic product (GDP) and job creation.

The budget reflects government's focus on social expenditure while consistently finding creative ways of creating a conducive environment for businesses to operate in. Government's policy objectives include making the economy more labour-absorptive, raising productivity, boosting exports and promoting greater levels of investment. These economic objectives, alongside social policy goals such as improved education, training and health outcomes, will contribute to more effective redistribution of resources and capabilities. Ultimately, poverty reduction is about developing people's capabilities and providing a growing economy in which they can work to improve their living conditions. The policy levers to achieve these objectives include:

• Steps to reduce youth unemployment, including a targeted wage subsidy aimed at lowering the costs and risks of hiring inexperienced work-seekers.
• Supporting labour-intensive industries through industrial policy interventions, skills development, infrastructure investment, public employment programmes and a rural development strategy.
• Raising our savings level, and sustaining high levels of public and private investment.
• Improving the performance and effectiveness of the state, especially the provision of quality education and training at all levels.
• Reforms to increase inclusion and participation in the labour market, alongside efforts to improve competition in product markets, to reduce barriers to job creation and investment, and to lower the non-wage costs of doing business.
• Keeping inflation low, striving for a stable and

competitive exchange rate, and providing a buffer against global volatility.

• Raising productivity and competitiveness by cutting red tape, enforcing competition laws, enhancing regulatory oversight, improving the performance of state-owned enterprises, and opening up the economy to investment and trade opportunities that can boost exports.

The most urgent focus of policy change must be interventions to create jobs for young people. Government aims to accelerate job creation for young people through a targeted wage subsidy, together with improved information services linked to training, to activate employment in the private sector. A further expansion of public employment programmes is also under way, and is supporting local infrastructure projects, literacy programmes, home-based care, school maintenance and early childhood education initiatives.

In developing a new growth path, progress also needs to be made in developing sectoral plans to raise employment and output. For example, South Africa needs a strategy to raise agricultural output, which will have positive benefits for rural employment. Similarly, a plan that removes obstacles to mining investment and exports could boost output and support job creation. These initiatives are led by the economic cluster of ministers, in consultation with industry stakeholders.

The 2010 budget also takes further steps in reprioritising public expenditure. In general, resources are shifted towards education, health, rural development, creating jobs, fighting crime, infrastructure and human settlements, and improving local government.

South Africa's social security system has proven resilient during the turbulent economic conditions of the past year. Almost 14 million South Africans are now receiving social grants, and this number is set to increase in the coming years as a result of the extension of the child support grant to recipients' 18th birthday. There is, however, considerable room for improvement in the social security system. Government is examining ways to bring down the cost of administering the grants system and countering fraudulent claims.

Infrastructure investment has accelerated strongly over the past four years and is set to continue to contribute towards higher growth in the short term and greater competitiveness in the longer term. Over the next three years, government will spend a total of R846 billion on infrastructure, mainly in electricity generation, freight rail and ports capacity, water schemes, roads and airport infrastructure.

During the recession, tax revenue in the country fell by nearly 3 per cent of GDP, contributing to an increase in budget deficit. Due to South Africa's low public debt, government could sustain strong growth in public spending through increased borrowings to help cushion the economy. Now that the recession has ended, we can afford to adopt a gradual approach in reducing our budget deficit. A budget deficit of 7.3 per cent is projected for 2009-10 and 6.2 per cent in 2010-11. By 2012-13, the deficit is expected to reach 4.1 per cent.

The recession has yielded important lessons about macro-economic management. Countries that have done better during the recession, and which are better-placed to grow more rapidly in the years ahead, are characterised by well-developed financial sector regulation, sound macro-economic policies, low public debt, high savings rates, broad and robust social security nets, and governments capable of responding effectively to the inevitable challenges that arise in a competitive and volatile global economy.

As the first African hosts of the FIFA World Cup, South Africa has ensured that this once-in-a-lifetime opportunity has not gone to waste. To date, government has spent about R33 billion in preparation for the tournament. The world cup has acted as a catalyst for investment in the human and physical capital of the country, driven improvements in transport and communications infrastructure, created jobs and boosted the economy. The knowledge and experience gained in planning and implementing this project means South Africa now has increased its capacity to implement other 'mega-projects' in the future, creating a more competitive economy and driving growth. The actual event is expected to contribute about 0.5 per cent of GDP growth in 2010. The country stands ready to welcome visitors from all over the world for what is sure to be an unforgettable event.

Experience clearly shows that success in the global economy requires hard work, effective organisation and clear leadership. Many countries are working to increase competitiveness, attract investment, develop more skilled labour and broaden opportunities for their citizens. South Africa too must compete on this global platform, where progress is registered through hard work, effective organisation and clear leadership. Government has made clear its commitment to ensure the continued growth and development of the country, which provides prosperity for all. F

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South Africa's Economic Indicators

GDP:	$277.4 billion (2009)
GDP growth:	-1.9% (2009 est.)
GDP per capita:	$5,684 (2009) (nominal; 76th) $10,136 (2009) (PPP; 79th)
GDP by sector:	agriculture (0.9%), industry (20.6%), services (78.5%)
Inflation (CPI):	7.2% (2009 est.)