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SA IS CAUGHT IN A TRAP OF LOW GROWTH

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South Africa is caught in a quagmire of low growth, with an economy that is not investment-driven. This leaves government with a clear choice - either structural growth or structural decay, warns Martyn Davies, the managing director of Emerging Markets and Africa at Deloitte.

Strong economic growth, through a freer or liberalised economy and faster structural reform, is a political choice, Davies said this week during a discussion ahead of the budget speech this month.

Structural reform is essential if South Africa wants to avoid an L-shaped economic recovery - a recovery characterised by a slow rate of recovery - with a shallow trajectory.

30%

DAVIES SAYS, IN SUCCESSFUL ECONOMIES, INFRASTRUCTURE INVESTMENT AMOUNTS TO ABOUT 30% OF GDP PER YEAR, BUT, IN THE MIDDLE OF LAST YEAR, THIS FIGURE IN SOUTH AFRICA WAS A MERE 12.5%

"We are struggling with built-in low growth where the economy is barely growing faster than the population. As a result, we are also sitting with built-in inequality," says Davies.

Almost all of South Africa's problems can be solved if the economy grows at 5.5% a year, as it did in 2007, he says.

Although emerging markets are again attracting foreign direct investment and South Africa can also benefit from this, political will is needed for structural reform.

Davies says that, in successful economies, infrastructure investment amounts to about 30% of GDP per year, but in the middle of last year, this figure in South Africa was a mere 12.5%.

Budget documents show that in the 2011/12 financial year, R80 billion was budgeted for economic infrastructure, which accounted for about 8% of consolidated government spending. In the 2021/22 budget, this accounted for only 5.2%.

Economic infrastructure refers to services such as electricity, water and sanitation, telecommunications, and public transport - aspects that help economic growth.

However, Kevin Lings, chief economist at Stanlib, says one does not learn much about the true state of affairs from government's infrastructure spending as reflected in the budgets.

This does not give the full picture because the term "economic infrastructure" in the budget reviews only mentions broad categories and a list of projects, says Lings. Many of the projects are repeated in the documents year after year and this does not give concrete details about the progress of the infrastructure projects.

Fixed capital expenditure, as a percentage of GDP, gives a better indication of how much is being spent on infrastructure such as ports, toll roads and power generation.

Gaba Tabane, director and head of Deloitte's division for government and civil service, says that, against this background, a difficult budget speech lies ahead for Finance Minister Enoch Godongwana on February 23.

The minister sets the policy, but government departments and different ministers in service delivery portfolios have to implement it and reprioritise the money.

In the run-up to the budget speech, there is also pressure from various quarters for more money to be spent on basic education to correct the inequalities in the school system, and for the public healthcare sector to ensure better outcomes for about 80% of the state-dependent population.