

“The importance of Business Confidence in stimulating Economic Growth”

Monale Ratsoma

Let me begin by thanking the Black Management Forum for the invitation to address its constituency and also greet all in attendance.

- There is no doubt that as a country we are currently going through probably what will go down as one of the most difficult economic and political phase in our democratic history.
- It has been close to 10 years since the financial crisis of 2008. Despite many efforts to revive the economy, and notwithstanding gains in social programs, growth remains below historic averages, unemployment is hovering at all time highs, poverty has been entrenched and inequality has become chronic.
- In the years following the financial crisis, much of our economic under-performance was directly attributed to slow economic growth globally.
- Fast forward to today, South Africa’s growth has clearly de-coupled from the rest of the world.
- Let us look at some statistics:
 - According to the IMF, the US is expected to growth at 2.2 per cent in 2017,
 - Eurozone at 2.1 per cent
 - UK 1.7 per cent
- In the developing world
 - China is expected to grow at 6.8 per cent
 - India at 6.7 per cent
 - Russia 1.8 per cent
 - Brazil 0.7 per cent
- It is very clear that we can no longer blame our demise on the rest of the world.

- Correctly, we have made, in the few years, the right introspection and diagnostics through the Nine Point Plan.
- *Who can dispute the fact that as a country we needed to ensure that we stabilise the workplace environment to curb production stoppages related to strikes?*
- *Electricity provision had also been a problem. Our manufacturing foot print has been eroded over the years and require corrective intervention, hence the reference to beneficiation is timely.*
- *Necessary reforms are long overdue to open up markets to small business and new entrants in key sectors, which requires policy interventions to dislodge monopolies and oligopolies*
- *Agro processing is a growing emphasis, leveraging on growth markets in the African continent.*
- *We have correctly identified tourism as our new gold.*
- *Department of science and technology is increasingly a global leader in innovation through to beneficiate our mineral resources.*
- *Generally our services sector, across finance, telecommunications and transport remains resilient. These sectors have on balance ensured that when the primary sector was contracting, headline GDP reading remained anchored above zero.*
- **All considered, what then has been behind our low economic growth performance?**
- Notably business confidence has been weak in recent years, reflecting in under-performance in investments.
 - For instance investments contracted 3.9 per cent in 2016
 - The last contraction had been in the peak of the financial crisis in 2009
 - Before that the last contraction was in the late 1990s during the financial crisis.
- What crisis are we currently going through, one should ask? Frankly it is a crisis of confidence.

- **Why does business confidence matter?**
- The relationship between confidence and growth can be attributed by Keynes' theory of "animal spirits". The term "animal spirits" was coined by Keynes to describe that economic decisions are linked to human emotions and are often irrational.
- **Confidence impact economic decisions particularly investment and hiring decisions.** The decisions are based on how businesses and consumers feel about the prospects of the economy. This in turn impacts their willingness to save or invest which in turn result in fluctuations in economic activity (boom and bust cycles) and also on potential growth.
- **Confidence indicators can be self-reinforcing and self fulfilling and serve as leading indicators to investment and employment growth which is critical for overall economy.** For example, when business is optimistic about prevailing and the prospects of economic conditions, they will set in motion a virtuous cycle of accelerating investment, employment and income growth which will ultimately boost economic activity
- **Conversely, heightened economic anxiety and languishing confidence can become entrenched,** often making it challenging to reach and sustain its long term potential rates of growth. Recent experience¹ indicates that there are several important consequences of low and declining levels of confidence, including:
 - unusually high household and business savings rates, including the hoarding of capital by financial and nonfinancial firms
 - subdued nominal income growth and tepid private sector credit growth
 - widespread household deleveraging
 - declining business investment spending and weak employment growth
 - dominance of short-term thinking and absence of longer-term strategic activity
 - risk of a decline in the economy's structural growth rate and associated deterioration in productivity growth.

¹ <https://www.macquarie.com/au/advisers/expertise/market-insights/business-consumer-confidence-australia>

- The self-reinforcing nature of business confidence is seen in the close correlation it has with investment, employment and ultimately economic growth. Weak confidence leads to the private sector limiting their willingness to invest and create jobs in the economy. This ultimately has a negative impact on growth.
- The RMB/BER Business Confidence index has been trending below the 50 neutral level since the second quarter of 2012, only rising marginally above 50 on two occasions, after plunging to 23 during the financial crisis in 2009.
- Since 2013, business confidence has consistently been in a contractionary territory reaching the recent low of 29 in the second quarter of 2017, before rising to 35 now in the third quarter 2017. Confidence has been exceptionally weak in the manufacturing and new vehicles subsectors.
- Similarly, private sector investment growth slowed from 7.5 per cent in 2013 to 0.8 per cent in 2014 before contracting by 1.4 per cent and 6.9 per cent in 2015 and 2016 respectively. The breakdown of private sector fixed investment by sector suggests that over the last two years, the largest decline in investment was recorded in the manufacturing sector.
- Other key sectors of the economy have also recorded noticeable declines including agriculture, wholesale and retail trade as well as mining. There has also been some weakening in fixed investment within the broad business services sector.
- **According to the BER, private sector investment is likely to remain subdued, with the survey results consistent with annual average growth below 1 per cent for this year.**
- The factors noted as affecting business include the weak economic conditions, low profitability, and heightened uncertainty.
 - Over 80 per cent of respondents in the manufacturing survey indicate that the political climate as a serious constraint to business activity
 - In recent years, this indicator has closely, and negatively correlated with the overall business confidence index

What then needs to be done?

- From a government perspective, our role is to create an enabling environment
- The role on government is to provide the right legislation and policy environment for business to flourish.
- The role of government is to unite all in society behind a common purpose and a common goal.
- The role of government is to be the invisible hand that releases and disentangles rather than constrain.
- I am afraid we have not fared well in all these areas in recent years. Let us though not drown ourselves in despair.
- Efforts by the Minister of Finance in putting together the 14 Confidence boosting measures are geared towards reversing the trend and addressing issues of policy uncertainty. To list a few:
 - Finalising the mining regulations
 - Finalising land policy
 - Reforms in State Owned Companies
 - Broadband provision and spectrum allocations
 - Unlocking sectors through competition policy
- Relevant policy departments have commitment to implementation targets. Let me bore you with some details.
 - **SMME's** - The small business innovation and ideation fund is on schedule to be launched in February 2018. This is a complementary government fund aimed at financing small businesses in start-up phase
 - **Competition** - stamping out monopolistic practices - amending Competition Act, and Competition Commission investigating strategic sectors (ports; supermarkets); inquiry into high data cost
 - **Broadband rollout** - Minister for Department of Telecommunication and Postal Services has mandated that Broadband Infraco and Sita provide broadband services to Phase 1 government facilities. Funding has been allocated for Phase 1 (extension of broadband to all government buildings and using

public sector as an anchor tenant) of SA Connect, with Phase 1 covering 8 NHI-pilot districts. Rollout is important to provide broadband access to schools, clinics and other government buildings in these areas.

- **Spectrum allocation** - CSIR is conducting a study to determine spectrum capacity required by wholesale open access network. The study is in the process to being finalized with the licenses to be allocated in December 2018
- Government has an important role to play in building trust and confidence to encourage long-term domestic and foreign investment.
- Business also has a role to play – if everyone invests more, the economic gains will accrue to the private sector.
- The importance of business and the private sector for growth and job creation cannot be understated. It currently accounts for about 60 per cent of fixed investment and accounts for a great share of employment. The National Development Plan intends to create most jobs from the private sector; therefore, it is key that both parties work together.
- An effective partnership will be characterised by the private sector having confidence that government will create the conditions and rules within which sustained and inclusive economic growth is possible. Government has a critical supporting role to play in growth and job creation through the economic policies it sets.
- These include sound macroeconomic management that provides certainty in the economy and the framework and foundations for strong, sustained and inclusive growth, but also the provision of efficient, effective and appropriately priced network infrastructure and promoting an environment that is conducive to private sector growth and investment, including appropriate regulation and microeconomic reform.
- Therefore restoring business confidence should be a shared vision for both the government and the private sector in order to invest and grow, to develop the skills base needed to drive the economy forward and to innovate and foster technological progress.

In Conclusion

- Long-term growth and investment requires a shared vision, trust and cooperation between business labour and government. Promoting more rapid, job-creating growth means tackling the challenges that negatively impact on business confidence.
- By forging a partnership between the state and the private sector, as well as other social partners, we can be greater than the sum of our parts.
- Radical socio-economic transformation vision is about not only redressing the past but ensuring that more people participate in the economy and that we move to change the structure of the economy where we can have a dynamic private sector that mobilizes investment, employs people, penetrates export markets, creates wealth and opportunity.
- We must do more to encourage solidarity and collective action as the basis for a more equitable and cohesive economy and society. We need to have business investing, labour partnering with business and business working with the broader society

I thank you