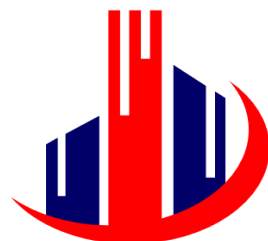


QUARTERLY ECONOMIC CHRONICLES

2019/Q3



ABOUT THIS PUBLICATION

The Quarterly Economic Chronicles is Vindilac Analytics' economic flagship, highlighting a series of economic events taking place at the national, regional and global levels. It is highly driven by the need for economic literacy and financial journalism in the African continent. South Africa in particular, is characterised by a poor savings culture, with a household-income to debt ratio of 72%. Thus, by providing an economic report that is clear to a non-economist, we unintentionally create an enabling environment for citizenry to make informed economic decisions. It is worth noting however, that this report is not aimed at competing with but rather complementing existing economic reports in South Africa.

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FOREWORD

South Africa remains faced by a multitude of pressing socio-economic and political issues, ranging from stubbornly high unemployment rates to extreme levels of inequality and poverty. The dire economic conditions have fueled tensions and undesirable acts among citizens, including gender-based violence, xenophobic attacks and other criminal practices as evidenced by the recent 2019 crime statistics. Although the country, in its 2030 vision plan, strives to halve unemployment and achieve inclusive and sustained growth of 5.1% annually, market outcomes have been somewhat the opposite. For example, the official unemployment rate stood at 29% in the second quarter of 2019 while the year-on-year economic growth rate has been revised from 1.5% to 0.6% for the 2019/20 fiscal year. Moreover, social contribution programmes i.e. social grants and the civil servants wage bill continue to absorb the bulk of the government's expenditure, raising stakes for a fiscal cliff.

Private investment, as measured by gross capital formation, has recently been at its lowest level. This is partially attributable to low business and investor confidence which have been hampered by policy uncertainty and rising social and political unrest. Even worse, property rights have been threatened by the recent land reform proposal, which aims to expropriate and redistribute land without compensation. In addition, the country continues to incur sustained budget shortfalls and current account deficits. The budget shortfall widened from -0.7% to -4.7% as a ratio of GDP in the last decade while the current account deficit widened from -2.7% to -4% over the same period. While tax revenue makes up 97.7% of total government revenue, the tax system remains faced by a plethora of bottlenecks, including a lack of compliance-enhancing tax administration, illicit tax activities and lackluster economic performance. Tax morale on the other hand, has been suppressed by the rise in corruption and poor quality of public services. Further on the downside, is the lackluster performance of state-owned enterprises, which continue to weigh heavily on state resources and borrowing requirements.

The competing economic issues facing the South African economy cannot, however, be overemphasized. A first key priority for the economy is a shift towards a labour absorbing growth path, one that will deepen investments in factor productivity and increase productive capacity. Developing agricultural value chains is likewise necessary to increase exports while accelerating the transition from traditional, low productive sectors to modern productive sectors. A second key priority is to invest in human capital, specifically the entrepreneurial, cognitive and socio-behavioural skills of youth. Reducing the nations' indebtedness to lower and safer levels through increased income streams and reductions in non-essential government spending, should likewise be a priority. To increase tax revenue yields however, tax authorities should focus on expanding the tax base instead of hiking already high tax rates. Lastly, because education still pays the highest interest, investing in early childhood development can guarantee the country future economic returns while ensuring that citizens do not fall short of their potential.

- **Baneng Naape**

1. EXECUTIVE SUMMARY

The global economic growth has deteriorated in 2019 owing to the apparent trade tensions between the United States (US) and China, and further worsened by weak demand in the emerging market and developing countries. Similarly, global trade growth remained sluggish amid renewed headwinds as trade tensions accelerate. Year-on-year growth in world merchandise trade fell from 3.9% in the first half of 2018 to 2.7% in the second half of 2019. Against this backdrop, 2019 would most likely register global economic growth rate of 3.2 percent as projected by the International Monetary Fund (IMF) in July. On the upside, the recent decade has marked significant efforts in South Africa across various institutions, aiming to revive the economic momentum that faded since the global economic and financial crisis in 2008/09. However, such efforts are synchronized with political and policy uncertainties, thus making it difficult for positive progress to be seen in the economy.

The economic status can be fostered by Monetary and Fiscal policies, which may then translate into better macroeconomic outlook. South Africa is currently facing perilous fiscal stance, whereby significant amount of public funds (revenue) gets drained by the state-owned enterprises (i.e. Eskom) owing to their poor performance. In the midst of such economic woes, the Credit rating agencies continues to keep an eye on South Africa's investment grade. The key risk that could justify downgrade for the country's investment grade is Eskom. Fitch Ratings flagged the likelihood of seeing budget deficit soaring to 6.3% of GDP in the current fiscal year, thus becoming wider compared to 4.5% projected in February by the government. The Monetary policy stance as driven by the South African Reserve Bank (SARB) have remained accommodative in 2019, noting reduction of interest rates to 6.5% in July. In abreast with such policy movement, the Federal Reserve bank have cut interest rates to a range of 1.75% to 2% in its September meeting. Similarly, other major central banks have maintained ease monetary policy. For instance, the European Central Bank (ECB) have also reduced its interest rates to -0.5%, while the Bank of England (BoE) and Bank of Japan (BoJ) have kept interest rates steady at 0.75% and -0.1% respectively.

Whilst deteriorating global economic performance may have formed the basis for monetary policy decisions, maintenance of price stability remains at the forefront to guide policy direction for most central banks. Therefore, the level of inflation rate remains targeted when the SARB (including most other major central banks) decide on the level of interest rates. Most importantly, monetary policy is aiming to achieve price stability, and thus creating a conducive environment for growth and development. Alongside the monetary policy, the fiscal policy is concerned with financial stability and management of the economy by influencing the amount of output in the economy. However, both policies thereof are complementary to each other to achieve better outlook of the macroeconomy. The role of fiscal policy is exercised through government, whereby the levels of expenditure and tax rates are adjusted to monitor and influence the nation's economy. Nevertheless, the amount of tax revenue generated would determine the budget available to spent, and thus forms the basis for the amount of government expenditure. The major sources of revenue in South Africa are personal income tax, company income tax, value added tax, as well as fuel levy and custom duties. Amongst all the sources

mentioned, personal income tax performs relatively well compared to the rest. Despite the 2008 financial turmoil and subsequent recession, personal income tax picked up the momentum to rise from 7.7% to 9.8% in the last decade. Value added tax has also generated significant amount of revenue. However, the total amount of revenue generated from all the sources is often offset entirely by large amount of government expenditure. In 2017/18 for instance, the total amount of revenue generated amounted to R1.3 trillion, while the expenditure amount in total amounted to R1.5 trillion. In overall, South Africa is experiencing too much pressure on expenditure, further exacerbated by the bailouts of state-owned enterprises. When the government runs out of money, it borrows money, thus accumulating public debt. In 2006/07, South Africa's gross loan debt gradually stabilized from 29% to 26% in 2008/09. Following the 2008 financial crisis, gross loan debt increased significantly from 31.5% in 2009/10 to 55.6% in 2018/19. In addition, gross loan debt has averaged 44.5% in the last decade while net loan debt has averaged 39% over the same period.

2. MONETARY FRAMEWORK

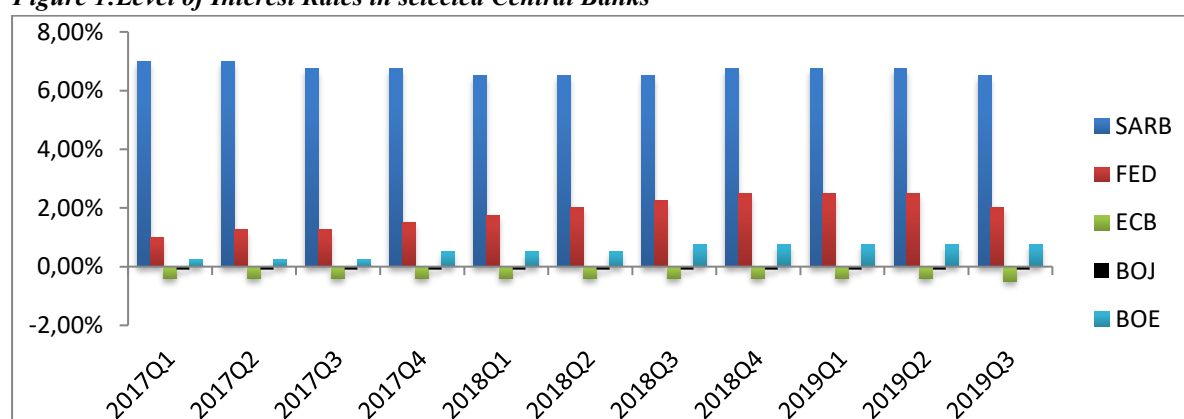
- Marius Masoga

As explained by the South African Reserve Bank (SARB), ¹monetary policy is intended to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth. The dawn of 2019 third quarter marked a dovish Monetary Policy tone in most economies globally, which cheered the financial markets. The low inflation rate in South Africa is amongst the factors that informed the Monetary Policy Committee (MPC) decision of the SARB to cut interest rate in their August MPC meeting. Most central banks have cited weak economic performance, attributable to the intensified trade war between China and the United States. There are various factors linked to monetary policy and also synchronized with global economic developments, as discussed below.

1. Interests rates

Following SARB's announcement of a 25 basis points cut in the ²Repo rate during July MPC meeting, there has been new developments in the domestic economy, most importantly and delightfully is that, lower inflation rate created a more conducive environment that potentially provided a leeway for more interest cut. Nevertheless, the MPC of the SARB have decided to keep the repo rate unchanged at 6.50%, in spite of some expectations (triggered by lower inflation rate) from other economists who hoped for another rate cut. Internationally, monetary policy has broadly signaled accommodative stance, with some major central banks keeping interest rates on hold, while others opted for rates cut. The details pertaining to interest rate decisions in the selected major central banks are presented in sections 1.1 to 1.4. Interest rates have implications on the ability of businesses and consumers to access credit. Therefore, when interest rates are lower, the cost of borrowing becomes cheaper, and as a result consumer spending would be fueled. Also, lower interest rates prompts businesses to increase their credit, hire more human resources and expand the production. The opposite (when interest rate are higher) is true. See the diagram in Figure 1 which depicts interest rates for selected central banks as presented below.

Figure 1: Level of Interest Rates in selected Central Banks



Source: author's compilation

¹ Monetary policy is an economic policy applied to regulate and manage the size and growth rate of the money supply within the economy. Through monetary policy, the monetary authorities of a country can control level of interest rate and target inflation rate so as to ensure price stability.

² The repo rate is the interest rate at which the central bank provides credit to commercial banks.

As indicated in figure 1, the SARB displays soaring level of interest rate compared to major central bank in advanced economies. However, this could be understandable since the comparison is for an emerging market economy versus advanced economies. The Federal Reserve bank have a higher frequency of policy adjustments compared to ECB, BoE and BoJ. Nevertheless, the recent policy action by Fed in September was anticipated to be the last one for the rest of 2019, albeit there are mixed emotions in terms of policy consensus.

1.1.Monetary Policy of the European Central Bank

The ECB have cut policy interest rates on 12 September 2019. This was the first interest rate cut since 2016, and thus recording a negative interest rate of -0.5%. Despite such policy action, the euro area economy remained unlikely to gain the momentum. Hence, enforced an exertion for more auxiliary policy tools, for the ECB to resume the ³Quantitative Easing (QE) scheme from November 2019 to buy 20bn (Euros) worth of bonds a month. The ECB have muted its previous QE scheme last year and have indicated in June 2019 that it intends to reinvest in full, the principal payments from the maturing securities purchased under the asset purchase programme. Most importantly, the ECB cited the necessity of maintaining favourable liquidity conditions coupled with “ample degree of monetary accommodation” (European Central Bank, Monetary policy decisions, 6 June 2019).

1.2.The Federal Reserve Bank Monetary Policy

In mid-September, the Federal Open Market Committee (FOMC) made a decision to cut policy rate, citing lackluster business investments and exports. However, there were some monetary policy hawks who dissented from the majority view to cut rates. Therefore, those members advocated for either tight monetary policy or rather keeping rates steady, especially that it seemed to them unnecessary to act. The interest rate was lowered to a range of 1.75% to 2.00%. The president of the US “Donald Trump” wants and always wanted interest rates in the US to be cut to zero or even become negative so that the prime rate becomes as low as possible in order to stimulate borrowing and ultimately, provide a stimulus for aggregate demand. But conventionally speaking, cutting rates to zero during a time when the economy is not even hinting at a recession, could be disastrous.

1.3.Bank of Japan Monetary Policy

The BoJ has kept monetary policy on hold during their September meeting, albeit, signaled for possible policy action in October 2019. The BoJ has demonstrated some agitation owing to the downturn of the global economy, worsened by risks posed to the economic recovery in Japan. Further concerns to the BoJ is the impact of Fed reserve rate cut, since the reduced interest rates in the US would shrink the yield gap between Japanese and US bonds. As a result, Japanese yen could appreciate, and weigh negatively on the Japanese exports. As shown in Figure 1, the level of interest for the BoJ have remained at a negative rate of 0,1% for protracted period (the entire period shown on the diagram).

³ QE refers to the large-scale asset purchase by the central banks to stimulate the economy. It is used as a crisis management tool during periods of severe economic downturn.

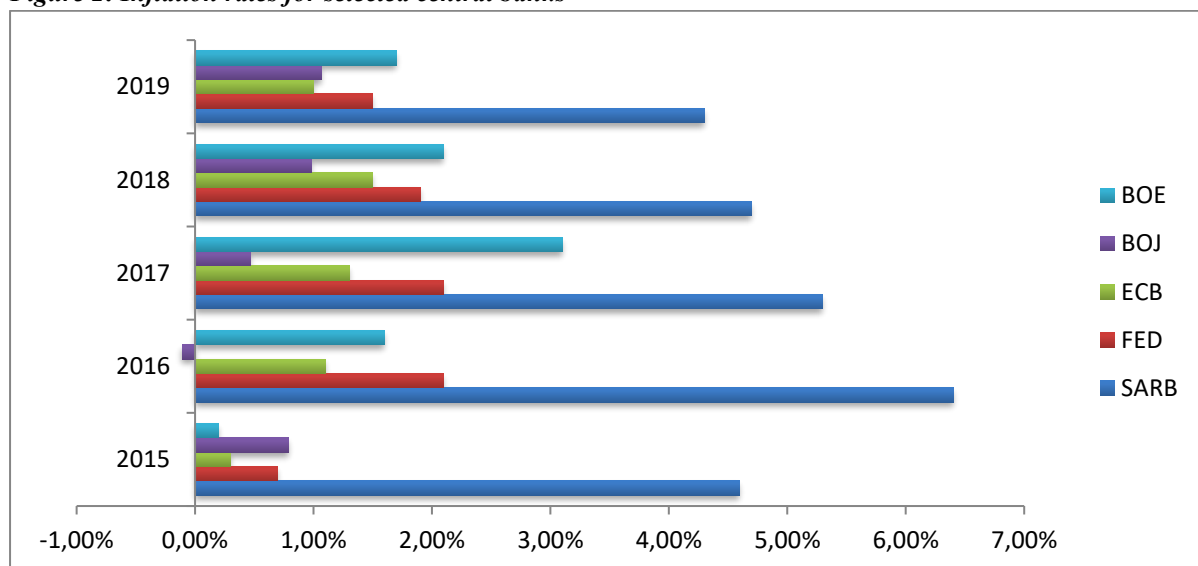
1.4.Monetary Policy of the Bank of England

In abreast with the accommodative monetary policy stance in other major central banks, the BoE maintained its interest rate at 0.75% following the decision of Monetary Policy Committee meeting in September 2019.

2. Inflation rates

In the first half of 2019, the level of headline inflation⁴ as measured by the ⁵Consumer Price Index (CPI) had remained well within the SARB target of 3-6%, and mostly painting figures that favours the mid-point (4.5%) of the inflation targeting⁶. At the dawn of the third quarter (July), Statistics South Africa (StatsSA) showed that CPI eased to 4.0%, following 4.5% recorded in June. It is worth flagging that inflation rates have not exceeded 4.5% since the beginning of 2019 until August. Nevertheless, the rand exchange rate did not perform at a satisfactory level, amid concerns owing to the fiscal risks facing South Africa. Adding to the strains is lackluster performance in the domestic and global economy. Internationally, the US and China continued on their tit-for-tat tariff hike announcements, which weigh heavily on the global growth performance. Meanwhile reverting to the figure of inflation in South Africa, the comparison of inflation rates from the previous years is presented in Figure 2 below, which clearly indicates the trend from 2015 to date.

Figure 2: Inflation rates for selected central banks



Source: author's compilation

Emerging market economies like South Africa do not only grapple with higher levels of interest rates compared to advanced economies (see figure 1). Inflation rate seems to have significant gap between advanced and emerging market economies, South Africa being used as an example. Nonetheless, if South Africa were to be compared with its peers, it would look much better.

⁴ Inflation rate is the general level at which prices fluctuate, which then determines the value of money.

⁵ The Consumer Price Index is a measurement of monthly adjustments in prices for a range of consumer products, consequently, this translate into inflation rate as elaborated above.

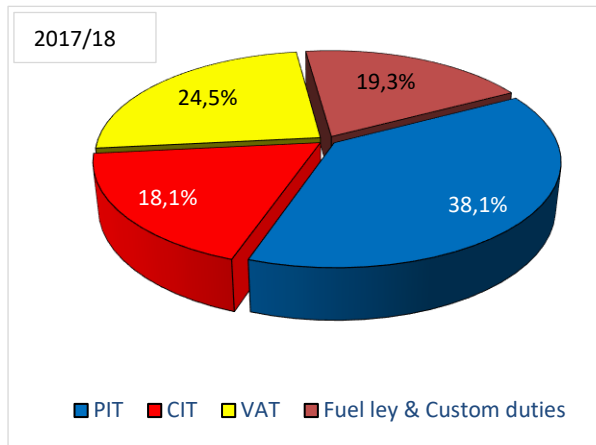
⁶ Inflation targeting refers to the monetary policy framework in which central bank announces explicit inflation target and implements policy to achieve this target directly. In SA the target is a range of 3%-6%, and it is achieved through interest (repo) rate policy.

3. FISCAL FRAMEWORK

- Baneng Naape

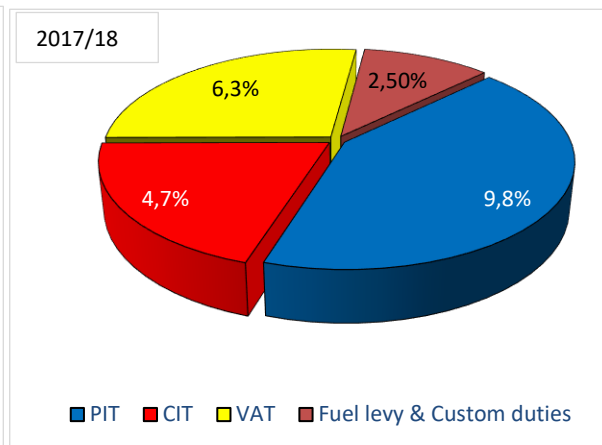
Sources of government revenue differ across countries as some countries (e.g. South Africa, Denmark etc.) depend on tax revenue while oil-dependent countries like Nigeria depend on resource rents. Less developed countries on the contrary, rely heavily on foreign aid, albeit it brings about its own deficiencies. This section highlights tax revenue performance for South Africa and selected emerging market economies. Figure 3 illustrates the composition of tax revenue while figure 4 reflects the sources of tax revenue as a share of GDP for South Africa.

Figure 3: Composition of main sources of tax revenue



Source: author's compilation

Figure 4: Sources of tax revenue as a share of GDP



Source: author's compilation

Main sources of tax revenue for South Africa include ⁷Personal Income Tax (PIT), ⁸Company Income Tax (CIT), ⁹Value Added Tax (VAT) as well as fuel levy¹⁰ and ¹¹custom duties. PIT has performed relatively well compared to other sources of tax revenue. For example, PIT as a share of total tax revenue increased from 34.5% in 2013/14 to 38.1% in 2017/18 while CIT and VAT on the contrary, decreased from 19.9% and 26.4% to 18.1% and 24.5%, respectively, during the same period. Fuel levy and custom duties on the other hand, saw a gradual increase from 19.1% in 2013/14 to 19.4% in 2016/17 before decreasing somewhat to 19.3% in 2017/18. Even in the midst of the 2008 financial turmoil and 2009 recession, PIT as a share of GDP still rose from 7.7% to 9.8% in the last decade. Similarly, VAT revenue also showed some resilience, increasing from 5.8% to 6.3% as a share of GDP in the last decade. Total revenue collected by the government increased from R842 billion in 2011/12 to R1.4 trillion in 2017/18.

Sadly, as the number of companies paying tax declined from 817 597 in 2014 to 483 473 in 2017, so did the share of CIT in GDP. CIT as a share of GDP gradually declined from 5% in 2013/14 to 4.7% in 2016/17. In the first quarter of 2019, PIT stood at 41.7% while CIT and Custom duties stood at 17.7% and 4.5% as fractions of total tax revenue, respectively. Given the lackluster economic performance, PIT and custom duties fell to 38.1% and 3.3% as

⁷ Personal Income Tax is tax paid by an individual on the income they earn.

⁸ Company Income Tax is a direct tax imposed by a jurisdiction on the income or capital of companies.

⁹ Value Added Tax is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale.

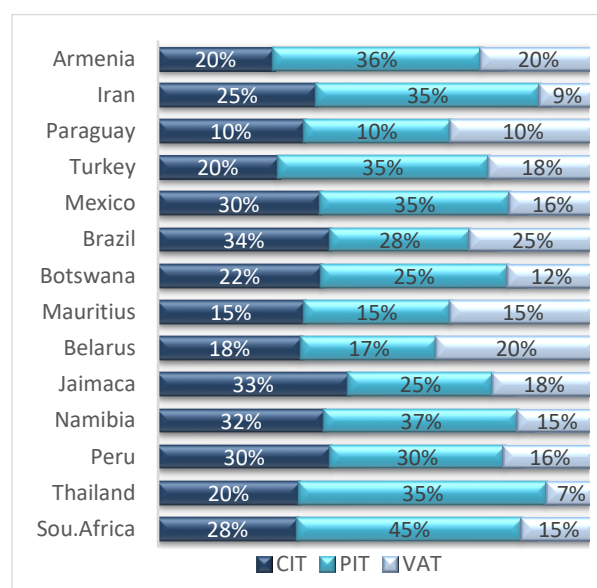
¹⁰ Fuel levy is an excise tax imposed on the sale of fuel. It is paid by any individual or firm who purchases fuel.

¹¹ A custom duty is a tax paid by individuals for importing goods and the main aim is to protect the local market.

fractions of total tax revenue, respectively, in the second quarter of 2019, while CIT on the contrary, accelerated to 20.5%, during the same period. Tax revenue buoyancy¹² recovered from -0.71 in 2009/10 to 1.20 in 2013/14 before making a downward turn to 0.91 in 2017/18.

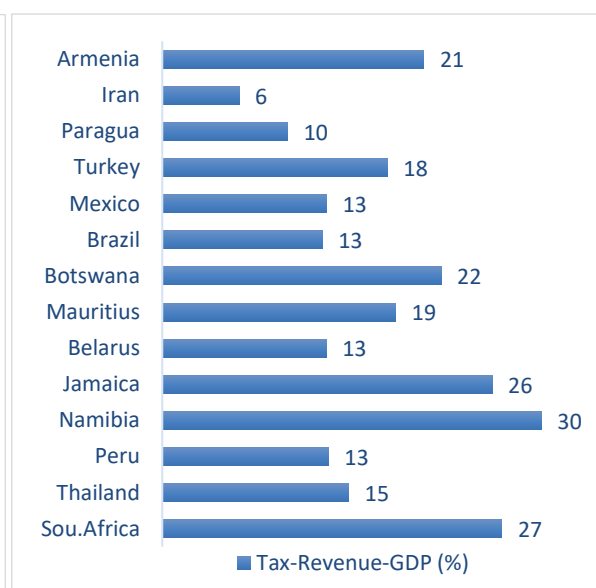
Having assessed domestic revenue performance, it is likewise necessary to see how we compare to others. Figure 5 and 6 illustrate tax rates and ¹³tax-to-GDP ratios among selected emerging market economies, respectively. When analyzing figure 5, we find that Paraguay and Mauritius offer favourable tax rates while Brazil on the contrary, levies relatively higher tax rates. For example, both PIT, CIT and VAT are levied at 10% in Paraguay and 15% in Mauritius while in Brazil, they are levied at 34%, 28% and 25%, respectively.

Figure 5: Tax rates in Emerging Market Economies



Source: Adopted from Naape (2019)

Figure 6: Tax to GDP in Emerging Market Economies



Source: author's compilation

As matters stand, South Africa ranks first in ¹⁴Top Marginal Tax Rates (TMTR), currently sitting at 45%, followed by Namibia (37%), Armenia (36%), Iran (35%), Thailand (35%), Mexico (35%), Turkey (35%) and Peru (30%). When making comparisons by CIT rates, Brazil is highest among selected emerging market economies, followed by Jamaica (33%), Namibia (32%), Mexico (30%) and Peru (30%). Although Thailand has the lowest VAT rate (7%), it is among the highest in TMTR. It is worth noting however, that it is not the impact of different tax rates in isolation that matters, but the overall impact of the entire tax system. On ¹⁵average, Peru has the lowest tax rate (10%), followed by Mauritius (15%), Belarus (18%) and Botswana (20%). In contrast, South Africa has the highest average tax rate of 29% in 2019. When analysing tax-to-GDP ratios among selected emerging market economies, Namibia appears to have had the highest tax-to-GDP ratio of 30% in 2017. South Africa and Jamaica also performed relatively better than most emerging market economies in 2017, with tax-to-GDP

¹² Revenue buoyancy measures the responsiveness of tax revenue to the growth of the economy. A value of one implies that the growth in tax revenue matches the growth of the economy while a value below one implies that tax revenue growth is at a slower pace than the growth of the economy.

¹³ Tax-to-GDP ratio is the share of tax revenue in GDP and provides an idea of the tax burden.

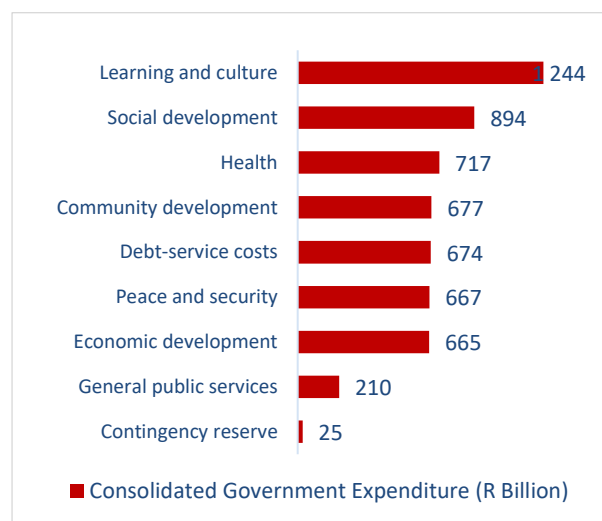
¹⁴ The Top Marginal Tax Rate is the percentage of tax applied to the highest income earners/bracket.

¹⁵ The average of the CIT, VAT and PIT rates by country.

ratios of 27% and 26%, respectively. This is above the United Nations (UN) recommended benchmark of 20% tax-to-GDP ratio for emerging economies. Notwithstanding, Peru (13%), Belarus (13%), Mexico (13%) and Paraguay (10%) amongst others, fell below the UN benchmark. When placing focus on Mauritius and Paraguay which have the lowest tax rates as depicted in figure 5, we find that their tax-to-GDP ratios are likewise low, amounting to 19% and 10%, respectively. This is an interesting finding given that lower tax rates are known to yield higher tax revenues while higher tax rates induce illicit tax activities. A more recent indicator of tax performance is ¹⁶tax effort, which will be covered in the next issue.

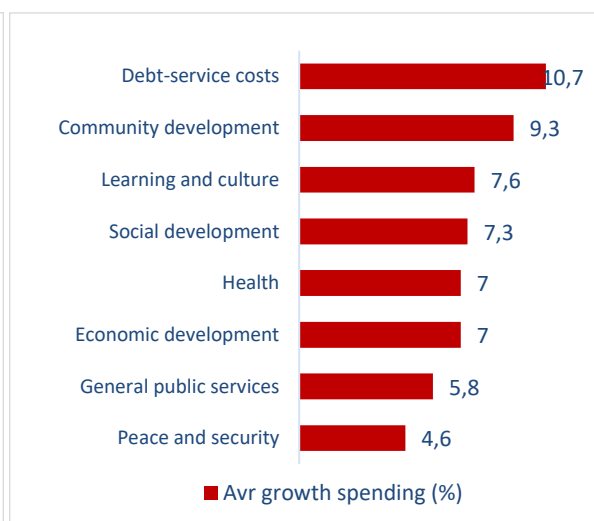
The growing size of government has been at the focus of debate given expenditure positions that are in excess of revenue, triggering increased borrowing requirements. Thus, in this section, we revisit trends in government spending for South Africa. Figure 7 depicts consolidated average government expenditure by function over the ¹⁷MTEF period while figure 8 illustrates the average nominal expenditure growth per function. When analysing expenditure by function, learning and culture is expected to consume the bulk of government expenditure in the next three years, averaging R1 244 billion. This entails a nominal average growth rate of 7.6%. While the government estimates to spend R717 billion on health on average, the cost to implement the National Health Insurance is estimated at R206 billion. If implemented, expenditure on health would reach R923 billion by 2021/22. Nonetheless, the government appears to be spending less on general public services and contingency reserve, averaging R210 billion and R25 billion, respectively.

Figure 7: Government expenditure (MTEF period)



Source: Budget Review

Figure 8: Average nominal growth in expenditure



Source: Budget Review

As the government continues to borrow from the market, a greater share of future expenditure goes towards servicing the debt, leaving little room for development programmes. Debt servicing costs are expected to average R674 billion over the next three years, a nominal average growth rate of 10.7%. It is sufficient to note also that sudden policy changes and

¹⁶ Tax effort is the extent to which tax authorities mobilise domestic revenue.

¹⁷ Medium Term Expenditure Framework (MTEF) period refers to annual, three-year expenditure planning, which sets out the medium-term expenditure priorities and hard budget constraints.

deficiencies in state entities also put pressure on government spending. For example, the implementation of free higher education led to a reprioritisation of R30 billion in government spending while State owned Enterprises (SoEs), which were once growth drivers, have costed the government over R100 billion in bailouts, not forgetting the R69 billion provisional allocation set aside for reconfiguring electricity utility “Eskom”. Government spending increased from R952 billion in 2011/12 to R1.5 trillion in 2018/18. In line with this, government spending is expected to increase from R1.67 trillion in 2018/19 to R2.09 trillion in 2021/22 of which 34.4% will be spent on compensation of employees, 17% on social grants and 13.9% on goods and services. All these items represent current expenditure. While public-sector current expenditure has been on the rise, public-sector capital expenditure on the contrary fell by 4.3% in 2017 as evidenced by the Stats SA’ latest capital expenditure report. The nation’s budget shortfall as a fraction of GDP widened significantly from -0.7% to -4.7% in the last decade. This is because, government expenditure has been ahead of revenue in the last decade, averaging 28.5% while revenue only averaged 24.7%.

At the back of increasing deb-ratios, is a deteriorating fiscal framework. The level of public indebtedness in South Africa remains elevated. To put this in context, the stock of gross loan debt stood at an all-time high of 57% at end-2018. Further to this, it is the deteriorating fiscal stance amid poor performance of SoEs. As tax revenues fall short while expenditure requirements increase, the government incurs budget shortfalls, which are often offset through borrowing. It is worth noting however, that the risk premium associated with borrowing costs is often high when a country’s finances are in dire position without any promising turnaround strategies, similar to when an individual’s credit score is lower than average. In this section, we provide some key highlights on South Africa’s debt position and the rest of the world. The trends are illustrated in figure 9 and 10 below.

Figure 9: National Debt as a share of GDP

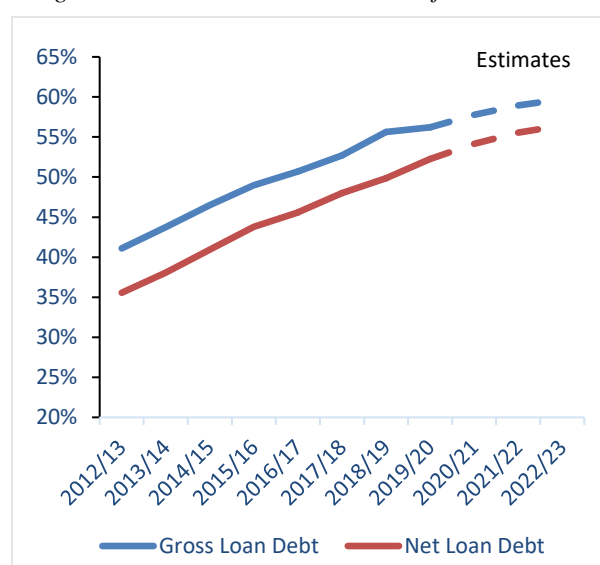
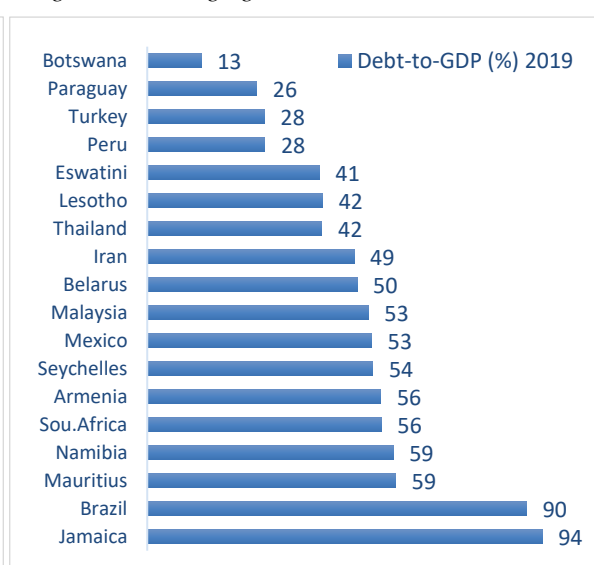


Figure 10: Emerging Market Economies Debt levels



South Africa’s gross loan debt gradually stabilized from 29% in 2006/07 to 26% in 2008/09. Following the 2008 financial crisis, gross loan debt increased significantly from 31.5% in 2009/10 to 55.6% in 2018/19. In addition, gross loan debt has averaged 44.5% in the last decade

while net loan debt averaged 39% over the same period. The prudential limit of debt-to-GDP ratio for advanced market economies has been set at 60% of GDP while for emerging market economies it has been set at 40% of GDP. In spite of such limits, the gross loan debt is expected to reach 60% in 2023/24, before deteriorating somewhat to 59% in 2026/27. This is way above the 40% benchmark for emerging market economies and threatens debt sustainability for South Africa. Even worse, the dire financial stance of many SoEs, chief among them being Eskom, has placed upward pressure on the nations' fiscal framework. The debt-to-GDP ratio is expected to reach 60% of GDP earlier than initially planned.

When making comparisons by country, Botswana, Paraguay, Peru and Turkey appear to have relatively lower levels of debt, amounting to (13%), (26%), (28%) and (28%), respectively. This is in line with the recommended benchmark of 40% debt-to-GDP ratio. Other countries however, South Africa being amongst them, are faced with debt positions that are increasing at an alarming rate. At beginning-2019, debt positions for Brazil and Jamaica reached 90% and 94%, respectively, way above the recommended benchmark of 40%. The extent to which a country can reduce its public indebtedness to lower and safer levels, depends on the structural reforms in place (if any). Better financial planning and practices, complemented by structural reforms that boost job creation and economic growth, can help reduce public indebtedness through increased national income.

4. TRADE & FINANCIAL MARKETS

- Thabang Kumalo

1. Trade Patterns

Global trade growth remains sluggish amid renewed headwinds as trade tensions between the United States and China accelerate. Year-on-year growth in world merchandise trade fell from 3.9% in the first half of 2018 to 2.7% in the second half of 2019. In addition, emerging market economies' merchandise exports slowed by 4.6% in 2018, compared to 5.3% in 2017, while merchandise imports decelerated to 4.8% in 2018, compared to 8.1% in 2017. Meanwhile, advanced market economies' merchandise exports remained relatively flat, growing at 3.5% in 2018, compared to 3.4% in 2017, while merchandise imports grew by 3.2% in 2017, an improvement from 3% in 2017. Notably, the slow growth of merchandise trade was largely driven by weak global demand amid heightening trade tensions, increased volatility in financial markets and tightened monetary conditions. Trade tensions in particular, appear to have contributed significantly to the slowdown in global trade volume. Figure 11 and 12 show trends in merchandise exports and imports, respectively.

Figure 11: Annual growth in Merchandise Exports

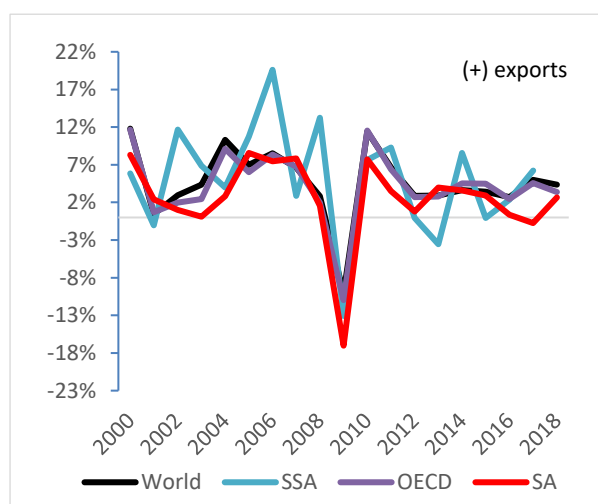
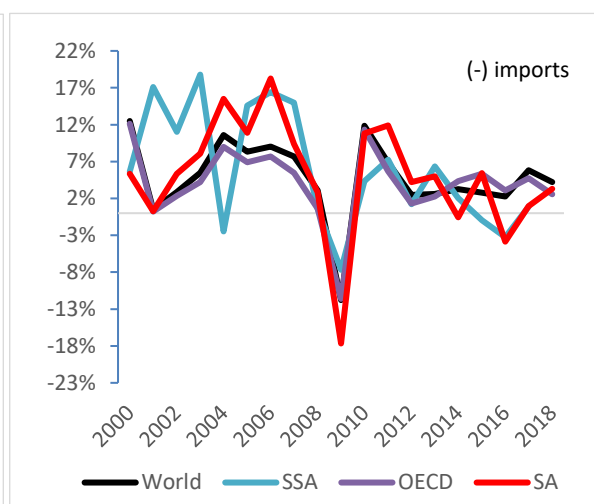


Figure 12: Annual growth in Merchandise Imports



Through closely integrated supply chains, international trade in Asian economies has also been impacted by rising US-China trade war¹⁸, as have exchange rates with the US dollar. For example, exports contracted by -4.3% in Indonesia, -2.3% in Japan and -7.1% in Korea while imports contracted by -15.3%, -4.7% and -7.7%, respectively. As a result, real economic growth in emerging market economies remained unchanged at 4.2% in the first quarter of 2019. Growth in the G20 merchandise trade remained weak in the first quarter of 2019. G20 exports rose marginally by 0.4% on a quarterly basis while imports fell by 1.2%. Contrast to the third quarter of 2018, when the first round of tariffs came into effect, G20 exports are down by 0.8% and imports by 2.7%. Ultimately, sluggish global trade growth appeared to have a negative impact on emerging market economies. GDP growth in emerging market economies expanded by 4.5% in 2018, down from 4.8% in 2017. Developing Asia was the fastest growing region globally, achieving an average growth rate of 6.4% in 2018, albeit slightly down from 6.6% in

¹⁸ The US-China trade war is an ongoing economic conflict between the world's two largest national economies, China and the United States, amid what is referred to as "unfair trade practices".

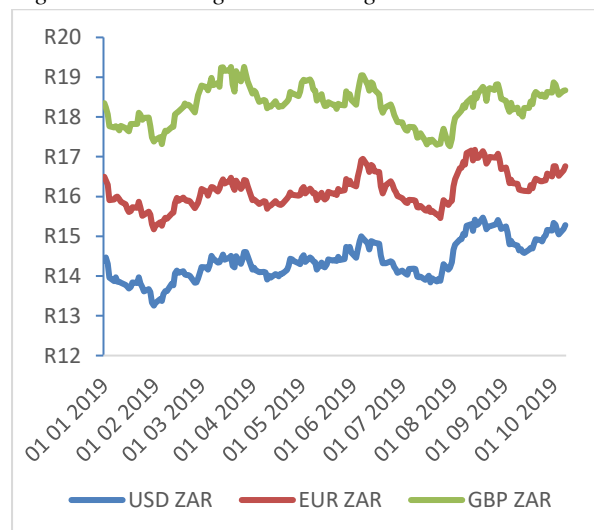
2017. Nonetheless, African economies expanded by 3.4% in 2018, compared down from 3.6% in 2017. The expansion was broad-based, with more than 90% of African countries enjoying growth accelerations in 2018. Albeit still below its potential, Africa emerged among the fastest-growing regions in the world, highlighting the continued resilience of its economies to negative shocks and global volatility. South Africa in particular, saw an improvement in terms of trade in the first quarter of 2019 as the rand price of imports decreased while that of exports rose slightly. Despite this, South Africa's trade deficit on the current account widened to R142.5 billion in the first quarter of 2019, compared to R110.2 billion in the fourth quarter of 2018.

As a ratio of GDP, the current account deficit widened to 2.9% in the first quarter of 2019 from 2.2% in the fourth quarter of 2018 while its trade surplus decreased from R71.8 billion to R43.0 billion over the same period. The deterioration in the trade balance was triggered by excess merchandise imports that. Further to this, was the shortfall on the services, income and current transfer account, widening somewhat to R185.5 billion in the first quarter of 2019 from R182 billion in the fourth quarter of 2018. The slow growth in 2018 served an impetus for governments and central banks to adopt more expansionary fiscal and monetary policies and the impact on growth is yet to be seen. The SARB have released the figures on current account for 2019Q2 in September, which showed a trade balance deficit of R27.2 billion, compared to a surplus of R41.9 billion recorded in the first quarter.

2. International Finance

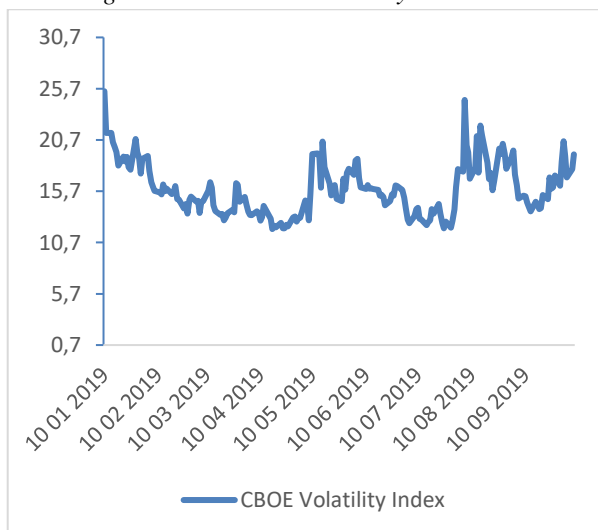
The financial market and exchange rates are susceptible to global and domestic economic events. Therefore, in the midst of various economic events including politics and economic performance, the immediate pain or benefit is felt mostly by the financial markets. Following a rebound of the growth in Gross Domestic Product of South Africa in the second quarter of 2019, the rand exchange rate has gained some momentum towards the end of September 2019. The gain was further supported by improved global risk sentiment owing to signals for a likely truce (in October) between US and China on their trade dispute.

Figure 13: Exchange rates amongst selected countries



Source: author's compilation

Figure 14: Trends in Volatility Index



Source: author's compilation

The SARB in its second issue of 2019 Quarterly Bulletin has mentioned that the prices of domestic assets were driven volatile by both domestic and external factors. In that regard, the rand has also experienced sharp movements in the previous six months, whereby it somehow broke-through to record a value above R15 to the US dollar. The rand came under severe pressure in 2018. Having started the year relatively strong vis-à-vis the US dollar, averaging ZAR/USD 11.95 in Q1 2018, it subsequently depreciated sharply towards an average of ZAR/USD 14.25 in Q4 2018. The rand came under severe pressure in 2018. Having started the year relatively strong vis-à-vis the US dollar, averaging ZAR/USD 11.95 in Q1 2018, it subsequently depreciated sharply towards an average of ZAR/USD 14.25 in Q4 2018.

Several factors have contributed to the depreciation of the rand in the external front, including monetary policy tightening in the US during 2018; dollar strength; and escalating tension in global trade. Domestically, these included uncertainty regarding the land reform process; Eskom's financial and operational challenges, including load-shedding; the issue of nationalising the SARB; the run-up to the national elections; and the economy's weak growth prospects. Even worse, in 2019 Q1 ZAR/USD was averaging between R14.5-R14.60; R15.17-R16.49(ZAR/Euro) and R17.31-R19.25(ZAR/GBP) (See figure 13). Additionally, in September 2019, ZAR/USD was ranging between R14.57-R15.14; R16.13-R16.72(ZAR/EURO), and ZAR/GBP is between R18.00-18.62.

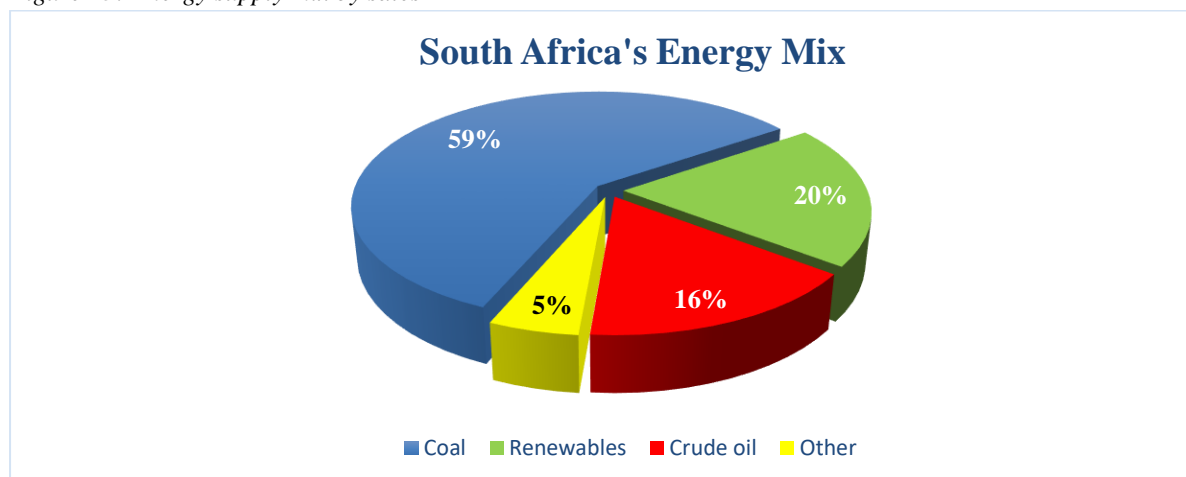
5. ENERGY & TECH

- Thando Mkhombo

1. Energy

South Africa is still largely characterised by a non-renewable energy sector although attempts are being made to shift to a less carbon-led energy supply mix. This includes the Integrated Resource Plan (IRP) on cost effective and clean energy supply. Figure 15 below illustrates the energy supply mix for South Africa by sales.

Figure 15: Energy supply mix by sales



Source: author's compilation

As indicated in figure 15, energy supply in the country is dominated by coal, making up 59% of the ¹⁹primary energy supply, followed by renewables (20%) and crude oil (16%). South Africa supplies approximately 40% of Africa's electricity and has until recently been one of the four cheapest electricity producers in the world. The electricity sector in South Africa is dominated by the national utility Eskom, a primary electricity supplier, and generates approximately 90% of the electricity used in the country. The balance is supplied by municipalities and redistributors as well as private generators. Eskom is the world's eleventh-largest power utility in terms of generating capacity, ranks ninth in terms of sales, and boasts the world's largest dry-cooling power station. The utility sells power directly to some 6 000 industrial, 18 000 commercial, 70 000 agricultural and 3 million residential customers. It owns and operates a number of coal-fired, gas-fired, hydro and pumped storage power stations, as well as one crude oil imports.

A significant amount of crude oil is sourced from African countries; however, the Middle Eastern countries are still an important source of crude oil for South Africa. About 51% of crude oil requirements were met by African countries, mainly from Nigeria (33%), Angola (12%), Ghana (5%) and Togo (1%). This figure increased from 48% in the previous financial year on average. About 89 million barrels per day was from within the continent. The crude oil imports from January to December 2018 were about 170 million barrels per day. There was a

¹⁹ Primary energy is a form of energy found in nature that has not been subjected to any conversion or transformation process.

16.44% increase in the crude oil imports in 2018 as compared to the year 2017. This increase may be that the refineries were operating with minimal or no disruption. The newly developed integrated energy plan optimises the relationship between the supply of electricity, gas and liquid fuels for meeting energy demand in the period up to 2050. The department of energy continues to promote the optimal use of South Africa's renewable energy resources to ensure that the country's sustainable energy agenda is adhered to.

2. Technology

At the leveraging on digital platforms for 4IR creatives event, Minister of Communications, Stella Ndabeni-Abrahams and Deputy Minister Pinky Kekana, announced that the government is looking at developing the biggest tech hub in Africa, a coding and programming academy as well as co-working and co-creation spaces for the youth and start-ups in particular. South Africa is known to have one of the largest Information and Communications Technology (ICT) markets in Africa by value. It shows technological leadership in the mobile software field, security software as well as electronic banking services. This demonstrates the technology advancement that is imbued in the country. As an increasingly important contributor to South Africa's GDP, the country's ICT and electronics sector is both sophisticated and developing. There are a number of international corporates from South Africa, including IBM, Unisys, Microsoft, Intel, Systems Application Protocol (SAP), Dell, Novell and Compaq. It is seen as a regional hub and a supply base for neighbouring countries. The South African market is price-sensitive, also on the capital goods' side.

Business Monitor International (BMI) also indicates that the areas of opportunity for cloud computing include but not limited to banking and retailing. The improvements in data center infrastructure has resulted in a boost to cloud computing, in which a lot of business seem to be moving towards. It is estimated that around 60% of large South African companies have implemented some form of cloud computing since 2016. The fourth industrial revolution also known as 4IR has its pros and cons, like any other change. For instance, Artificial intelligence can now produce robots that can manufacture cars faster and with more precision than assembly line workers and this is obviously at the expense of human Labour. The 4IR has resulted in huge job cut lose and lot of companies closing down in last few months as the workers were replaced by machines. The 4IR is making our day to day life become easier and faster to get things done, but it is however a threat to humanity as it is replacing workers in doing those particular jobs in every way possible.