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Op-ed

Growth drivers coming to the fore
By Dr Roelof Botha and Daryl Swanepoel

Now that the dust has settled on the GDP data for the 2nd quarter, attention shifts to the prospects for maintaining the positive growth momentum, albeit marginal over the first half of the year.

The consensus opinion amongst the 36 economists participating in the monthly survey of forecasts conducted by Unisa's Bureau of Market Research (BMR) points to a continuation of the current growth trend, with an average forecast of 0.3% real GDP growth. Interestingly, only one of them expects negative growth, whilst the average of the five most optimistic predictions is above one per cent.

Closer scrutiny of the latest GDP data published by Statistics SA and trade balance data published by SA Revenue Services provides some clues to the prospects for higher growth during the rest of the year.

Capital formation turns the corner

First and foremost, capital formation seems to have decisively turned the corner after the debilitating effects of state capture and the Covid pandemic. Not only does this key demand-side indicator add value to the economy in the quarter under review, but it also facilitates future growth by virtue of expanding the country's productive capacity in all sectors.

At a level of more than R260 billion during the 2nd quarter, gross fixed capital formation was 10% higher than a year ago (in real terms) and has been boosted by the return to a positive growth trajectory for fixed investment by the public sector. Although South Africa's ratio of capital formation to GDP declined dramatically during the disastrous state capture era (from 17.6% to only 13.8%), it has since stabilised and is now at above 15% and rising.

Still on the demand-side of the macro-economic equation, another indicator that has lifted its head is the change in inventories. Although it represents a more modest value, the four-quarter average for inventory build-up has recovered from negative territory during Covid to a positive figure of R23 billion in the 2nd quarter of 2023, a clear sign that manufacturers, wholesalers and retailers are gearing up for higher demand.

Turning to the trade data, it is encouraging to note the steep upward trend for imports of machinery and equipment, which provides a partial explanation for the recovery of capital formation. Much of this trend is associated with the exponential growth in renewable energy installations, with rooftop solar photovoltaic capacity in South Africa having quadrupled in the past year from just above 1,000 MW to 4,400 MW (excluding government's renewable energy programme for independent power producers).

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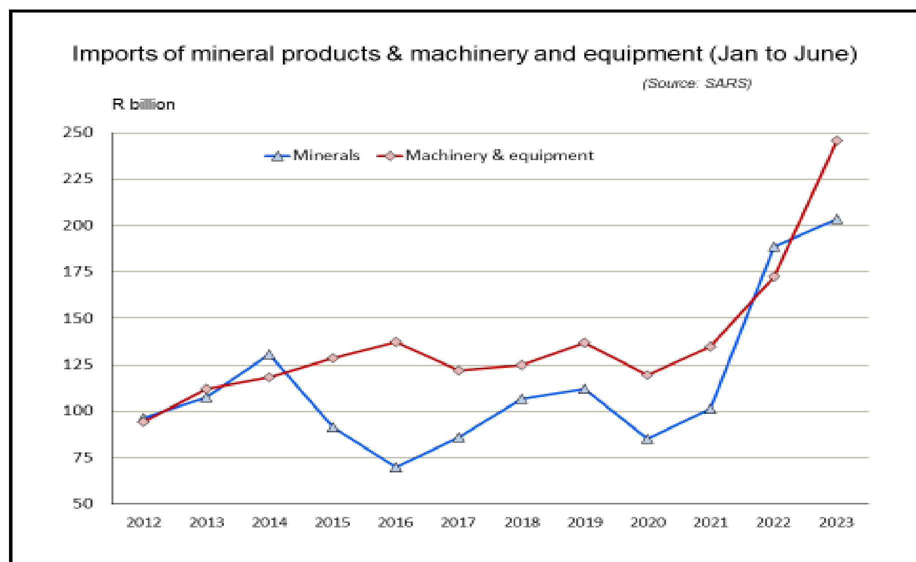
Deeper analysis required

In contrast to some misleading comments surrounding potential balance of payments constraints that have been doing the rounds of late, quite the opposite is true. South Africa is generating close to R500 billion in export earnings per quarter and this has been virtually matched by imports during the first half of 2023, resulting in a small surplus on the trade account.

Due mainly to fairly large income payments to the rest of the world, the net result on the current account of the balance of payments has been a modest deficit – less than 3% of GDP. Thanks to the regular occurrence since last year of a sizeable surplus on the financial account, however, the net effect on the balance of payments has been close to zero. Clearly, no problem exists with regard to foreign exchange flows.

In addition to the simple arithmetic surrounding balance of payments trends, scaremongering amongst ill-informed commentators over the negative implications of a possible future trade deficit is also flawed in theory. Standard undergraduate economics teaches that a deficit on the current account of the balance of payments is not necessarily a negative economic phenomenon and vice versa.

More often than not, relatively high imports of machinery and equipment (as being experienced this year by South Africa) are a prerequisite for economic growth in a developing country, even though such a trend may be accompanied by a (usually temporary) trade deficit.



During the first six months of 2023, imports of machinery and equipment rose dramatically, representing 25% of total imports, its highest share since 2016. The imports of mineral products (which is mainly represented by oil and is involved in a permanent tussle with machinery & equipment for top import trade spot), amounted to 20% of total imports, its second highest level since 2014.

Both of these categories of imports are crucial to the expansion of productive capacity and economic growth, with the stellar performance of machinery & equipment imports also closely associated with higher investment in renewable energy by small and large businesses alike.

Lower interest rates in the offing

Of late, a most encouraging development that promises to eventually boost household consumption expenditure, which remains the mainstay of the expenditure side of GDP, is the sharp decline in both

the consumer price index (CPI) and the producer price index (PPI). Following the normalisation of global sea freight charges, which had increased eight-fold during the Covid lockdowns, median global inflation is on a clear downward trajectory and South Africa is no exception.

With inflation virtually at the mid-point of the Reserve Bank's target range, no reason exists for a continuation of restrictive monetary policy. It should be noted that South Africa was never exposed to demand side inflation and the relentless increase in the repo rate (matched by the rise in the prime overdraft rate), was never necessary. Lower interest rates are required as a matter of urgency to restore consumer confidence, lower the cost of capital and prevent a further erosion of property market activity.

In addition to positive trends in several key macro-economic indicators and the prospect of lower interest rates before year-end, a most welcome policy development has also come to the fore, namely closer cooperation between the public and private sectors. As promised during the State of the Nation address in 2022, Pres. Ramaphosa is slowly but surely overseeing a necessary shift towards privatisation.

Terminology is not important here – whether government refers to this trend as public-private partnerships, collaboration or joint ventures, the bottom line is that the private sector and its inherently superior endowment of technical and management expertise, is becoming more involved in repairing, maintaining and expanding the country's infrastructure.

Progress with this policy approach should herald a new sustained economic growth phase, especially if it is accompanied by a switch to appointments in the public sector that are based primarily on merit.

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