No quick economic bounce back: SA needs a long-term growth plan

The sharp and quick economic bounce back many have been hoping for South Africa isn't going to happen. The more likely scenario is a 12- to 24-month gradual recovery with the added complexity of managing a rebuild and growth plan spanning an initial period of at six to eight years.

Jason Hamilton

“Although the latest R500bn stimulus announced is welcomed and when reviewing it from the budget deficit point view does go a long way to address the increased levels projected, it could still be significantly short, requiring further action to be taken," says Jason Hamilton, University of Stellenbosch Business School (USB) guest lecturer in corporate and development finance, .

“It is imperative that whilst government and private sector remain focused on the immediate response and support required, we lift our heads and look forward towards crafting an integrated recovery and growth plan.”

The Monetary Policy Committee (MPC) dropping the repo rate by 225 basis points this year, reducing debt costs and providing some reprieve in the short term with the full effect of rate changes taking between six to 12 months to fully filter through the economy are steps in the right direction.

In addition, with the inflation outlook within the targeted band (3% to 6%) for the medium term the MPC has further room to provide stimulus of between 100 to 200 basis points to stimulate and support demand as part of a long-term growth strategy.

“However, this alone will not be enough to support a recovery and growth plan which will require significant investment and stimulus over years driven by an integrated and collaborative effort from government, private sectors and its local and international funding partners.

“The pandemic has proven that we are a global economy and reliant on each and every market for our own success. This unity and joint action will be the crucial factor that will determine our successful rise and recovery, which will see developed and stronger economies supporting the emerging markets.”

Government/public sector

Hamilton says restoring confidence is one of the major factors needed to attract foreign direct investment (FDI). “Specifically, to fund the recovery and more importability the long-term growth plans over the next six to eight years.”

“In addition to accessing the UIF for the stimulus announced to date the Government Employees Pension Funds (GEPF) have significant surplus funds available that could be accessed. There is also an under allocation across some of the mandated investments leaving headroom for allocation of additional funds which can be deployed directly or through co-investment. This can be a viable source of capital to assist during the recovery phase and subsequent growth phase.”

He says private sector savings can be accessed through the asset managers with certain regulatory adjustments (reviewed prudential limits), which will increase the funds available for local deployment.

“This will require the review of return profiles and investment criteria to ensure alignment. As with Development Finance Institutions (DFI) and GEPF or private sector funds accessed for investment it will be aligned to Sustainable Development Goal (SDG) focused projects and companies.

“We will also see a renewed focus on the already established regional trade zones which can effectively be used to leverage trade and enhance relations. What is required is a unified approach, both during the crisis and for any long-term growth plan.”

The African Continental Free Trade Area is an agreement that unifies the African continent and its 1.3-billion people which, if managed correctly, can put the continent in a very strong position by forming a unified trading block and creating a regional value chain.

“This could be the secret sauce that the continent has been looking for and leveraging this over the medium and long term will be crucial.

“Further stimulus could also be provided through reducing the tax burden on the private sector, ensuring more funds are available for investment and savings. We will likely see this coming through in the form of incentives as opposed to rates being dropped.”

Hamilton says even though all the ratings agencies have SA at sub-investment grade, this now provides the platform to rebuild and design plans to support a growth programme without having to worry about downgrade risk. “A very slim but silver lining.”

Development banks

Development banks should initially consider debt repayment and interest freezes, which will support the short-term funding need, he says.

“Any additional funding provided for the health response should be provided aligned to the crisis response and on flexible terms for at least a 24-month period. Consideration should also be given to restructuring current debt aligned to the short-term reprieve and with the aim to creating the headroom needed to support the long term growth initiatives."

Development banks will also be a key source of long-term funding to support private and public investment projects (infrastructure, renewable energy etc) aligned to a recovery and growth plan.

"Consideration can also be given to increasing the special draw rights (SDS) to assist with FDI in a time where investors have moved significant funds out of SA to safer havens."

Development finance institutions (DFIs)

He recommends that DFIs relax their credit and return criteria to increase the investment scope which will assist with the restructuring of current facilities and with the provision of new facilities.

"Companies and projects with strong environmental, social and governance (ESG) principles and alignment to the SDGs will be best placed to secure new investments and funding as they will not only offer financial returns but also long-term sustainability.

"DFI's can also take the lead on the co-investment from required to assist private and public sector investors (asset managers, pension funds and private equity firms), leveraged the ability to investment in health, manufacturing and infrastructure programmes."

Commercial banks and private sector

Hamilton suggests that through the regulatory adjustments made to date, (capital adequacy and liquidity ratios adjustments), banks have access to a more than R500bn to assist with market liquidity.

"They have also now been provided with a R200bn guarantee scheme which will assist in the further adjustment of the credit and lending criteria. This does not imply that grants or zero interest rates loans will be made as commercial terms will still be applied based on a risk adjusted model."

He says banks are well placed due to the infrastructure available to be used for such disbursements but it will only be done with specific government or development finance guarantees and under specific directives.

"Private debt held by institutional, local and foreign investors is a key provider of liquidity for South African corporates. However, this has proven difficult to restructure if we look at what has happened in the US and EU private debt markets where short term assistance hasn't been easily accessed. Companies should review their agreements to see what options are available to them and government have already provided opinion and guidance to the sector in this regard to motivate an aligned response," Hamilton says.