SOUTH AFRICA IN ECONOMIC STAGNATION: SECOND QUARTER GDP DATA FAILS TO REVEAL THE TRUTH: IS THE COUNTRY IN RECESSION?

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Abstract

The paper attempts to speak to the title of the paper. In so doing it will analyze the data put forward by the government as the economy posted a 0.7 percent second quarter growth, from the first quarter's 0.6 percent. This is no growth at all. The government and its ideologues claim that South Africa has staved off recession but, in actual fact Gross Domestic Product (GDP) data has failed to reveal the truth. In actual fact there is not much to celebrate. Technically speaking economists have pointed to stagnation of the South African economy. South Africa praises itself in terms of its macroeconomic policy and strong institutions. This is no feather in its cap and is a ploy of playing to the gallery for purposes of investment. Whether South Africa likes it or not downgrades are important considerations of the international economy and it therefore, cannot wish away such analysis because it damages its reputation and image on the international stage. Amidst this crisis and the collapse of African Bank, the issue is why did this happen and was the downgrade justified and, the rescue of the bank by the Reserve Bank evades key Questions. On the other hand central banks are trapped by their rescue schemes, the paper argues. There is a possibility in the very near future that South Africa's four major banks could face downgrades, if the government does not deal with the vexing issues of corruption, unemployment that stands at 25 percent, (This is a government figure, but others claim categorically that unemployment stands above 40 percent) increasing inequality, worsening poverty and the escalation of service delivery protests. The paper therefore unpacks the horrific scale of hunger in South Africa, amidst the South African economic crisis. It is against this background that the paper will analyze the issues alluded to.

RESEARCH METHOD

The use of newspaper articles were applicable are / will be utilized. However, the paper relies on the critical analysis of the writers who attempts to unpack these issues from observation and their analysis of the economic and other situations in South Africa. Thus the classical research methodology is not utilized for purposes of analysis in the paper.

AIM OF THE PAPER

The aim of the paper is basically to bring to the fore the problems that confront the South African government and the economy, on the basis that technically, there has not been any improvement over two quarters of 2014 and that, this is revealed by GDP data which fails to reveal the truth about the state of the South African economy.

FINDINGS

In unpacking the issues highlighted in the title of the paper and within the abstract, it is recorded that there are no structured findings. These findings are captured within the ambit of the paper and dispersed throughout the paper in terms of the analysis undertaken.

INTODUCTION

Most economists in South Africa are hesitant to describe the economy as being in stagnation. But they agreed that South Africa was sailing in this direction or in actual fact has reached the point of stagnation and recession. On the other hand government and its praise singers believe that things have improved in the second quarter of 2014 and that, the country is on an upward economic cycle. This is far from the truth. This is exemplified by the all embracing fact and reality that the economy grew by 0.6 percent quarter on quarter, seasonally adjusted and annualized, in the second quarter of 2014, narrowly avoiding slipping into recession following a contraction of 0.6 percent in the previous quarter. In reality or by any standards, it must be acknowledged by government and its economists that the country may in actual fact be in recession, even if it argues against this, because by all accounts it avoided entering the recession cycle by a whisker (according to government and its economists). This is of no significance to the people of South Africa because, it points to poor government handling of the economy for a protracted period of time with increasing unemployment that stands at above 25 percent. Some pundits place unemployment to about 40 percent or more.

On the other hand poverty is worsening and inequality is rising to a point beyond repair. “The market expectation was relatively wide in terms of the analysis, in that, the lowest estimate was a 0.1 percent drop and the highest estimate being for growth of 1,8 percent” according to Khuzwayo (2014: 1). This shows the fragility of the South African economy. It further shows that the government has a case to answer, in that the country was not badly affected by the economic down turn that began in 2008 and, did not take cognisance and advantage of this benefit, in order to manage the country, in terms of sound economic management. “The country has reached this state because of mismanagement of the economy, rising public service salaries, an unsustainable social welfare system through welfare grants, corruption that has reached endemic proportions, wastage and over – expenditure, the almost complete financial collapse of its municipalities countrywide, increased service delivery protests, mining strikes poorly handled by the government and a host of other inter – related factors. The situation is catastrophic for a country grappling to come to terms with its past apartheid history and has grave consequences for the majority of its people who are battling to eke out a subsistence living amidst, a predatory elite and politicians in the main, that do not acknowledge the plight of the poor” (Karodia, 2014).

The Oxford dictionary (2012) defines economic stagnation as a prolonged period of growth of less than 2 percent or 3 percent a year, accompanied by high unemployment and high inflation. South Africa meets the requirements of this definition, and therefore, for all intents and purposes has been in this cycle for a protracted period of time and yet government vehemently denies this reality and pays scant reference to this major problem. In this regard Nedbank Chief Economist Dennis Dykes (In Khuzwayo, 2014) states that “I could say we are in stagnation and given the objective circumstances we may end up with 1.5 percent growth this year, whilst Roger Baxter an economist at the Chamber of Mines, said “Japan had been in stagnation for the past 10 years but not in a recession. The problem is our growth levels are too low, we need to raise them. If you grow your economy at 5 percent every year, in 15 years you double your economy” Some of the views of Baxter are pie in the sky and, it appears that he has not read the political situation that has unfolded in South Africa over the last several years and under the Jacob Zuma presidency.

On the other hand Statistics South Africa (2014) said that growth was in general government services, transport and financial services. Mining and manufacturing both experienced strikes during the quarter, leading to contraction. It was the second consecutive quarterly contraction in mining, while manufacturing has shrunk in three out of the past four quarters. Policy uncertainty and electricity constraints were also cited as contributors to the economy's underperformance."

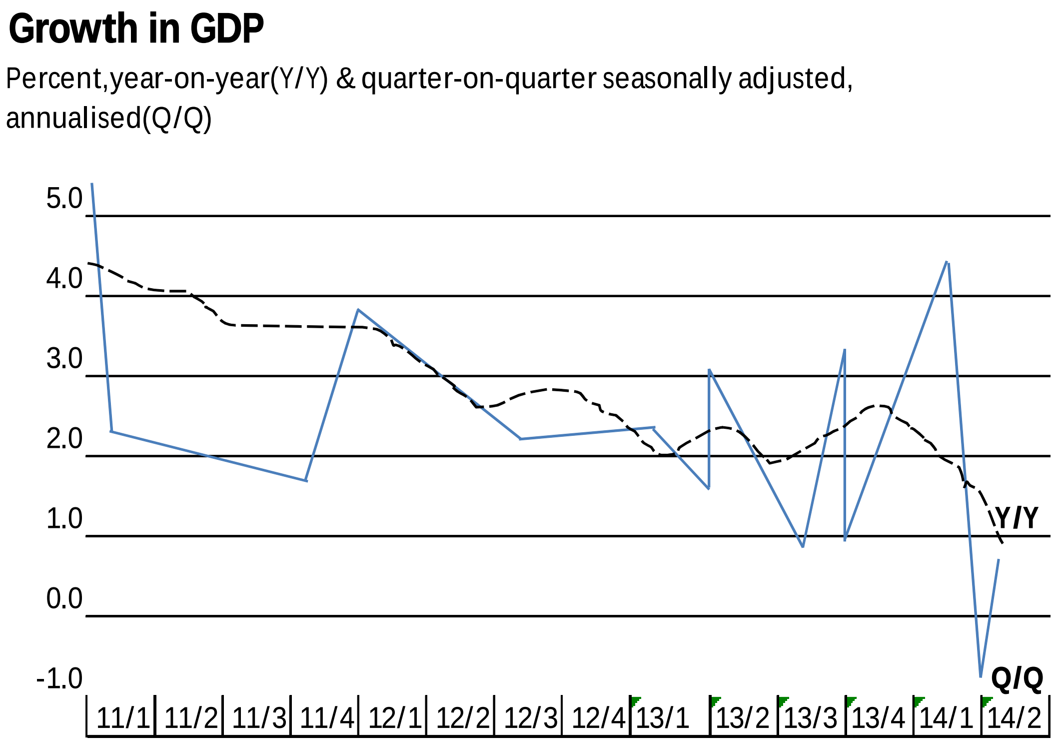
Standard Bank Chief Economist Goolam Ballim (2014) said "It is lamentable that clumsy politics is adding to the economic and industrial woes of South Africa and said that he thought that the economic underperformance was more elongated and that South Africa has underperformed in relation to its historical potential and that the future seems less rosy and global buoyancy will remain elusive and consumer spending will remain lackluster."

Finance Minister Nene in a statement to the press (2014) said that "the budget deficit targets were at risk with economic growth expected to slow this year to 1. 8 percent and the projected target will of 2.7 percent will have to be adjusted downwards." What does all of this mean? It means more talk and less action by government to deal with the problem, because over several years South Africa's economic growth has been deteriorating and government saw this coming, but sat back and did nothing. Given these scenarios GDP growth is now at risk of approaching the 1 percent or less annual mark this year after recording 1.9 percent growth last year, 2.5 percent in 2012 and 3. 6 percent in 2011. Even these growth figures are pathetic when one considers that South Africa has the natural resources for development and many factors going for it. Its desire to achieve a developmental state cannot be achieved with these growth rates and the rampant mismanagement of the economy by the government.

On the other hand poor government handling of the protracted strikes in both the mining and manufacturing sectors clearly showed its impact upon the country's GDP growth in the retail and wholesale trade, restaurants and the accommodation sector which slumped and contributed to the knock – on – effects of the strikes which penetrated far beyond the mining and manufacturing sectors. There is no doubt that had there not been increased spending in the public sector, the economy would have been faced with a full blown economic recession. This spending to was not coordinated and achieved very little in terms of job creation, dealing with unemployment and decreasing inequality. Real net exports will be good but given the fluctuation and Yo – Yo effect of the rand, not much reliance could be placed on this possibility. It also will depend on income growth being stable abroad.

The figures and tables depicted below show the growth in GDP, industries supporting growth and the rand versus the dollar:

Figure 1: Growth in GDP



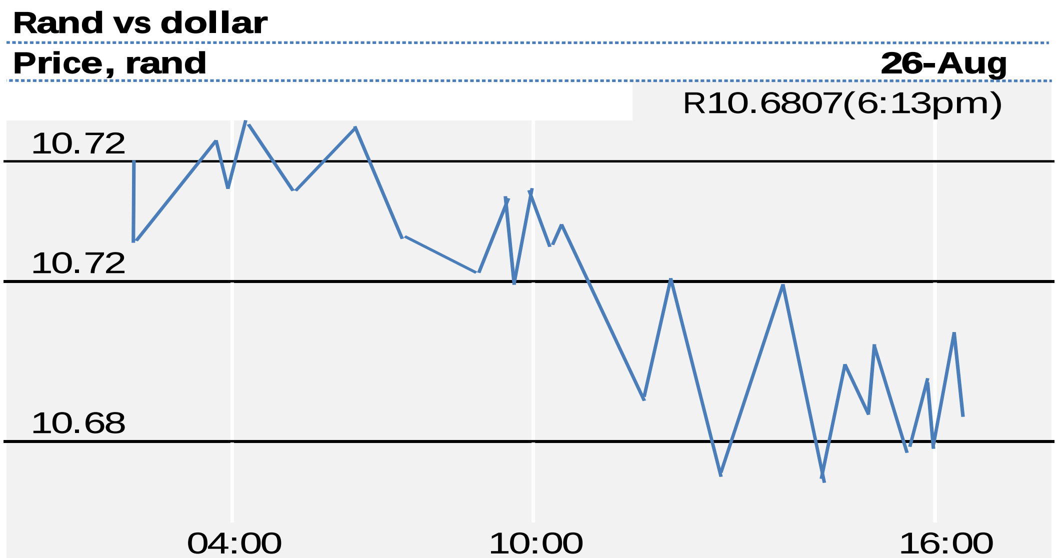
Source: Statistics South Africa, August 2014

Table 1: Industries Supporting Growth in Quarter 2 (Quarter on Quarter)

Industries supporting growth in Q2 (Q/Q)	
construction	+5%
Transport,storage and communication	+4%
General government	+2.9%
Finance, real estate and business services	+1.5%
Contraction (Q/Q)	
Mining	-9.4%
Manufacturing	-2.1%
Utilities	-0.6%
Trade	-0.2%

Source: Statistics South Africa, August, 2014

Figure 2: Rand versus Dollar



Source: Bloomberg, 2014

CALL FOR A SUITABLE INVESTMENT ENVIRONMENT

Maswanganyi (2014: 1 – 2) given the above discussion and issues raised states that "business has called on government to create an "appropriate environment" for investment that will create jobs and grow the economy because growth, it is very possible will be weak for the next six to twelve months or longer. It is imperative therefore that the Reserve Bank leaves interest rates unchanged to cushion the consumer who is taking a pounding financially for far too long." Government has to realize that that the levels of economic growth are exceptionally low and totally insufficient to solve South Africa's deep developmental problems. Business Unity South Africa CEO Cassim Coovadia (2014: 2) said "pockets of uncertainty remained in policy that hindered investments by the private sector and cited policy uncertainty regarding property rights as an example. He added that business will create jobs and invest if the environment was conducive and it can make a reasonable profit. The government and the private sector both support the 30 – year growth and development framework of the National Developmental Plan (NDP), although there is disagreement on some legislation, which includes proposals that farm workers own 50 percent of the land they work and provisions regarding the rigidity of labour laws." On the other side of the continuum, all this is not fine because government does not have the will to implement the NDP because it has been on the table for over 2 years now and there is much opposition to its implementation by the trade unions. Another problem is the country's centralized wage bargaining process has meant that, it could fuel recurring wide – ranging strikes in the mining and manufacturing sectors.

GROSS DOMESTIC PRODUCT FAILS TO REVEAL THE TRUTH

In analyzing the GDP figures as put forward by government with regards the second quarter of 2014 and in terms of the discussion in this article thus far. It is important to reflect upon the analysis made by the editor of the Business Report of South Africa, Ellis Mnyandu (2014: 1). In so doing the writer will add emphasis to his analysis were necessary, in order to add to the arguments detailed by him. "Every now and then or so often there comes a time when figures begin to sound meaningless relative to the everyday reality of many South Africans." The figures announced by government towards the end of August, 2014 indicating that in the second quarter South Africa narrowly averted recession are meaningless. Most economists unsurprisingly were hard – pressed to trumpet the figures, as signaling some sort of reprieve. If one considers the past, these latest GDP figures will most probably lull South Africans into believing that all is well that seems well. This is far from the truth because it is easy to manipulate figures and statistics to the advantage of those presenting them. History has categorically shown this phenomenon to be true for we know that the reality is that for many South Africans the question of "recession or no recession" is an academic one.

Mnyandu (2014:1) adds that "News that the economy did not officially slip into recession in the second quarter is of no real significance if one considers that South Africa continues to tip the scales in unemployment, poverty and inequality. Just by these three measures or standards, it is easy to argue that the economic expansion of 0.6 percent in the second quarter just means more of the same. At best, the figure suggests that the economy is muddling along, meaning that the right policy interventions in the months or years ahead, and with a bit of luck, we should hope for better growth. At worst the economy's current trajectory means South Africa faces serious growth risks, especially if we were to see a major dislocation on the global front. In simple English, an economy that is barely growing is as good as stagnant. This is what policymakers need to be perceptive about. In other words the economy sits on a precipice."

Probably, it is time that an economic stimulus be added to the equation of both economics and finance because they at the moment and over a protracted period of time are bereft of the necessary fuel to bring the NDP to life. It is obvious therefore that, whatever is envisaged through infrastructure plans, industrial policy, trade and other intervention strategies will all come to naught if the South African leadership, its bureaucracy and the private sector are unable to get the basic rights and keep in their sights that the goal is the development, success, prosperity, stability and economic stability for purposes of greater security of the country. The basics should be aimed at evolving and creating a climate that is conducive to doing business by instilling confidence, firstly in the domestic environment. The arrogance of the government must now lead to the realization that, it has to leverage the masses of South Africans who they have marginalized as bystanders, as though they cannot make a contribution. If the economy continues on the path that it is currently on, the government, business and the entire country will lose.

Economic stagnation is not a thing that suddenly creeps up into the landscape of economics and finance. The reality is that no one wants to take the responsibility to get the economy moving. The government blames business and business blames the government. It is a gridlock. It is a stalemate that the country can ill afford. There has to be a coordinated approach to stabilizing the economy. The country has just witnessed the collapse of African Bank, a phenomenon that has not been sufficiently explained by the treasury, the Reserve Bank and by government. Its cataclysmic demise carries more meaning about the extent of the problems that the South African economy faces than does the latest GDP readings. There is no doubt that in a confused political landscape that South Africa is under the ruling government, its mismanagement of the economy, its authoritarian stance on nearly all aspects of South African life, it is becoming the only show in town, when it comes to the underpinning of the economy, to underpinning the rule of law, to underpinning constitutional democracy. All of this is undertaken in terms of its interpretation and any criticism must be met with the wrath of the state. The reality is the truism that the economy has not escaped from anything, it continues to be more of the same under and inept government. The economy requires a drastic overhaul in orde4r to make it work. It has lost out to Nigeria by becoming the second largest economy in Africa and there is a real chance that, it could become the most sluggish economy on the continent.

QUESTIONING DOWNGRADES WITH ARROGANCE

Emerging markets are in denial about downgrades of their economies by rating agencies generally. The two cases in point are Turkey and South Africa, given the recent and continuous downgrades of their economies. The denial stems from the failure to acknowledge increased borrowing, but more importantly the mismanagement of their economies by their governments. It is most easy to forget that South Africa's credit rating was downgraded two months ago. Senseless comparisons are constantly made by South Africa with its peers rather than concentrating on dealing with the problems within its economy and stating as though all is well by often stating and reporting that "the bond market is in good health and government's cost of borrowing remains low compared with emerging markets and that South Africa's macroeconomic policy and strong institutions reassure investors who know the risks" (Lisa Steyn, 2014: 3). These arguments do not hold good because South Africa is technically in recession and has been unable to deal decisively with unemployment, poverty and inequality, which is further exacerbated by endemic corruption.

A credit rating gauges a country's credit worthiness and, theoretically, should have a big impact on the country's borrowing costs, as reflected by the bond rate. "South Africa is borrowing money at an interest rate of 8. 1 percent reports tradingeconomics.com, compared with 8.8 percent in January this year and far better than the heights of 11 percent in 2008 or 13 percent in 2002 (In Lisa Steyn, (2014). This argument is not sound enough for obvious reasons; it does not factor in the factors that are used to downgrade a country. It is senseless to compare South Africa with China for obvious reasons. These comparisons are being made by Lisa Steyn in relationship to the Brics countries. In the Brics relationship South Africa is an insignificant player economically and does not have the leverage like China, India, Brazil and Russia. These are large countries with huge economies, large populations that automatically create their own internal markets and are players that influence the geopolitics of the world. It has to be understood that rating downgrades confirm and reinforce the picture of falling credit quality and by implication are co - related with borrowing costs and of – course stability and other factors that are taken into consideration by rating agencies.

Steyn (2014) confuses the arguments in defending South Africa's downgrades, she does not realize that she is confusing the issue on the basis that she is looking for a direct linear relationship between yields and some indicator and must acknowledge that it does not work like that because a host of issues impact on downgrades. The global rates environment is also an important factor. She also in her arguments does not factor in inflation. Why have some foreigners moved their money out of South Africa?

One of the reasons for this is the reality that it causes nervousness and therefore downgrades confidence in the economy. Another factor is that it might be that share prices are overpriced. The biggest risk is South Africa's currency. Lijane (In Steyn, 2014) states that "South Africa is currently running a current account deficit and constantly needs funding from offshore to meet this funding requirement. The abundance of liquidity globally has been supportive of this funding, but a shortfall could lead to further depreciation of the rand." Has South Africa prepared for this eventuality? The short answer is no. "It must also be acknowledged that any announcement by the US Federal Reserve about tighter monetary policy in the US could lead to risk appetite and trigger outflows from emerging markets. It must be acknowledged on the other hand that "one realizes very quickly that relationships are nonlinear. Something can be unimportant until it crosses some threshold or psychological barrier and it can reach a level where it's all important" (Lijane in Steyn, 2014).

The South African government and particularly the ruling African National Congress have the uncanny knack of displaying arrogance on a number of issues including its mismanagement of the economy. It does not acknowledge that in actual fact, it is in recession because a 0.1 percent rise from the first quarter does not reflect that there has been any improvement whatsoever. For example Brazil's economy slipped into recession for the first time in more than five years as investments contracted on lower confidence before the October presidential election. Brazil has acknowledged this grave downturn and display no arrogance, nor does it purport that all is well or deny that it is in a state of recession and that the economy is currently in shambles. South Africa must take a leaf out of Brazil's book to manage its economy. Bloomberg (2014: 7) reports that "the Brazilian economy shrank 0.6 percent in the period April to June, 2014 from the previous three months after contracting a revised 0.2 percent in the first quarter, according to the national statistics agency. President Dilma Rousseff has attempted to revive growth with tax cuts, billions of dollars in credit and higher social spending. The Brazilian economy contracted for two consecutive quarters since the aftermath of the global financial crisis in 2008. All of this no doubt will put pressure on the central bank to loosen policy to support growth." On the other hand we find that the South African government is in a state of denial and is involved in more rhetoric rather than taking the bull by the horns and turn the economy around by decisive action of implementing the NDP in order to stimulate the economy and growth and deal with unemployment, poverty and inequality decisively. As matters stand in South Africa at the moment the NDP is a no starter because of government malaise and inaction.

Who would have believed or thought that South Africa's big four banks would get a credit downgrade after the African Bank collapse? (To be discussed in detail later in the article). They had shrugged off the cataclysmic financial meltdown and world financial crisis of 2008. The downgrading of these banks by rating agency Moody's has led even the staid Reserve Bank to question its rationale. These downgrades by one notch of the big four Nedbank, Standard Bank, FirstRand and Barclay's Absa, was preceded by a two – notch cut for the smaller Capitec, with the Reserve Bank also took issue. The Mail and Guardian editorial (2014: 26) states that "the downgrades seem to have less to do with the health of South African banks but the stability of our financial system in the country exacerbated by the Reserve Banks recipe to rescue African Bank and have forced shareholders to take a 10 percent cut in the value of their investment and has irked some creditors. This is an indication that the move may be in line with the international trend to 'bail in' rather than 'bail out. This means that taxpayers underwrite the costly rescue of financial institutions." This might be an international trend but in South Africa's case the taxpayer has to endure government inefficiency and mismanagement of the economy for more than a protracted period now. In other words Moody's sees this as the South African Reserve Bank as willing to impose losses on creditors which it took into account in its rating downgrades. What is the fuss and why the arrogance by the South African government when things are not going well. The rating agencies therefore see greater risk in the South African market.

BANK CRUNCH: TO BAIL OUT OR BAIL IN?

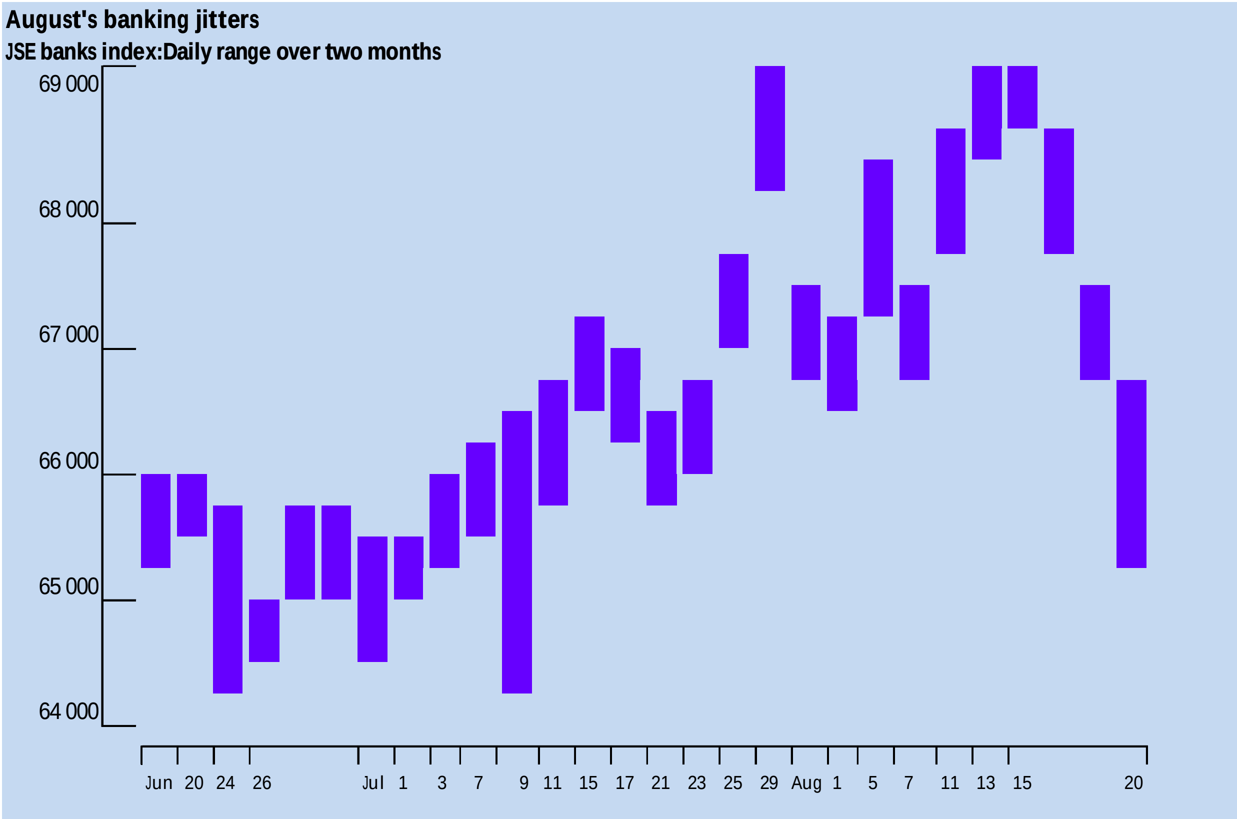
There is no doubt whatsoever that the downgrades of the big South African Banks therefore, casts the rescue of African Bank in a very different light. There are a number of reasons for the big four's downgrade, including weal economic growth, consumer affordability and indebtedness. But the most important or prominent reason, which Moody's indicated according to Lisa Steyn and Lynley Donnelly (2014: 1) "was the Reserve Bank's response to the abrupt loss of creditor confidence in African Bank. The policy response addressed related liquidity and capital issues, thereby mitigating contagion risks with the further objective of minimizing losses.

Moody's said that "the inclusion of a bail – in of senior unsecured bondholders and wholesale depositors indicates the regulator's willingness to impose losses on creditors." A bailout refers to the use of public funds to rescue a firm, a bail – in uses private funds. The Economist (In Steyn and Donnelley (2014) states that "the Economist first coined the term, described a bail – in as a situation in which the institution's creditors are forced to bear some of the burden by having some of the debt written off." The rescue measures included the recapitalization of the bank through the Reserve Bank and, to some extent, by bondholders and wholesale depositors, who took 10 percent hair cut, the term used for the difference between the market value and the purchase price of the asset.

Sean Marion (In Steyn and Donnelley, 2014) an associate managing director at Moody's said, "it is not solely a question of magnitude of losses but what the actions signal in terms of the direction towards burden – sharing of losses with investors. As we move out of the global financial crisis, governments are shifting their focus to protecting their balance sheets, and we have seen the global support environment evolving with legislations either being implemented or in the process of being implemented regarding the resolution process. These developments need to be reflected in our ratings as they are clearly credit – negative for creditors, and we have been reducing or removing support assumptions from our bank ratings in response to these developments." The move toward bail – ins is becoming widespread and it\s believed to have been bolstered by a 2012 International Monetary Fund staff discussion note, from bail – out to bail – in. this means mandatory debt restructuring of systemic financial institutions.. in other words too big to fail financial institutions had become costly and even unaffordable for some states to bail out and this also risked increasing moral hazard, a lack of incentive to guard against risk. From this we gather that one way to protect tax players is a bail – in. In South Africa's case this does not hold good because the tax payer has been increasingly burdened by governments ineptitude, poor morality and gross mismanagement of the economy and a lack of holding executives accountability and thus leaving them to their own devises to loot as they please.

Although bail – in legislation is yet to be implemented in South Africa, the remedy applied to African Bank has laid some of the responsibility of halting a systemic failure at the feet of investors, in the case of African Bank's bondholders, but has also served to help them. It has to be understood that there will be negative and positive criticisms about downgrades but the bigger driver of a ratings downgrade is a deteriorating operating environment and weakening gross domestic product. This is the situation in South Africa, so what is the real fuss on the part of the Reserve Bank and the government. It must be realized by both the government and the South African Reserve Bank that the biggest question mark hangs over the head of Capitec because it did a great deal of unsecured lending. Figure 3 below shows the August, 2014 banking jitters:

Figure 3: August, 2014 Banking Jitters



Source: Market Watch, August, 2014 Johannesburg Stock Exchange

BANK RESCUE EVADES KEY QUESTIONS

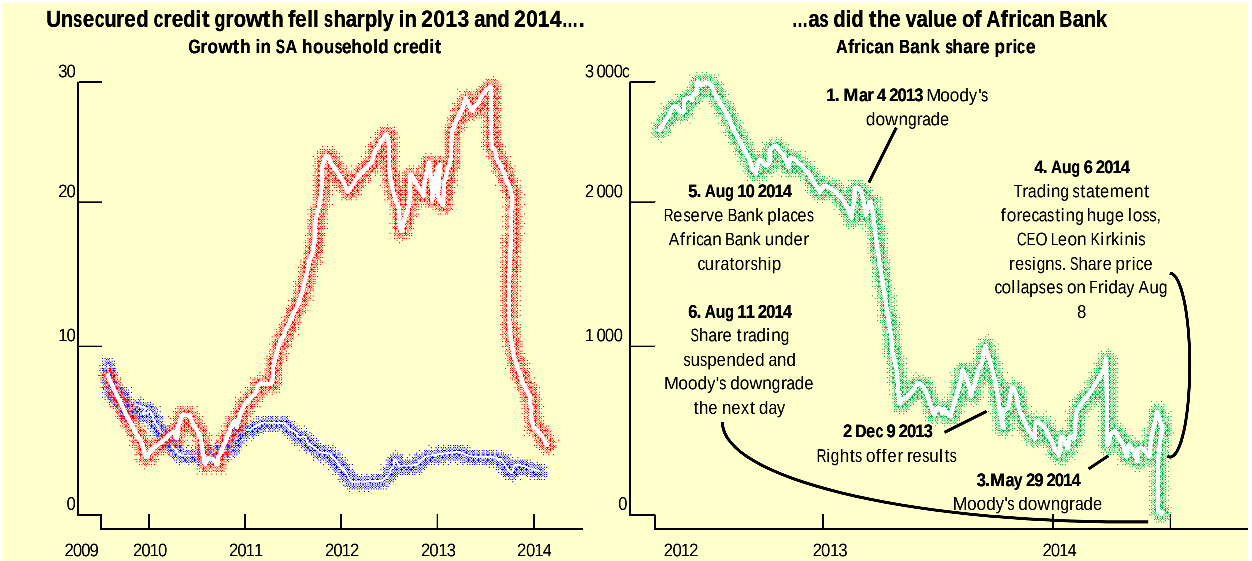
Many analysts have asked as to why regulators did not act sooner to avert the African Bank crisis. African Banks sudden demise in the beginning of August, 2014, left very few market players unscathed. Shareholders, got soaked in the bloodbath that preceded the company's rescue by the South African Reserve Bank. The regulators moved swiftly to maintain confidence in the South African local financial system. The main question is why did it have to be bailed out? And why did the regulators not act sooner to defuse the ticking time bomb that the bank had become? The Reserve Bank announced that the bank would be put under curatorship. It will be split into two a 'good bank' with a loan book value of R26 billion, which will be recapitalized by R10 billion underwritten by a consortium of private sector banks and the Public Investment Corporation (PIC); and a 'bad bank', with a book value of R17 billion, which the Reserve Bank will take over and buy for R7 billion. Retail depositors, a mere 1 percent of the bank's creditors, will be fully covered in the transfer to the good bank. But other creditors, chiefly the bondholders, will lose 10 percent of the value of their investment. Shareholders and subordinated debt holders will get nothing but the opportunity to participate in the new bank. On the other hand African Bank's ill - fated retail furnisher business Ellerines, a R70 million – a – month drain on the holding company and African Bank has been placed in business rescue.

According to Donnelley (2014: 1) "the bank's business model was a contributing factor to its financial woes because unlike other banks, it took almost no deposits but raised funds on local and international capital markets, which it then lent to consumers as unsecured credit at high interest rates. In response to increased competition in the unsecured market, African Bank aggressively expanded their lending, but when tough economic conditions hit lower end consumers non – performing loans soared." Restoring faith in the financial system is now a key issue because the bank's debt is widely held in the financial system by other banks, pension funds and money market init trusts. "Had the bank not been bailed out, it could have compromised the value of the bank's good book, affecting its ability to raise funds in the future. Besides local debt, it has issued bonds internationally, the most recent being in February when it issued 175 – million Swiss francs (slightly more than R2 billion) on the Six Swiss Exchange" (Donnelley, 2014).

It is also not clear how the debt write – downs will take place how will its Swiss and dollar debt be paid? Interest payments have been frozen Moody's downgraded the bank's credit rating to Caa2 and placed it on review for a further downgrade. Money market instruments also face a 10 percent cut. All of this has led to the downgrades of South Africa's four main banks. Many of these banks have long – term exposure to African Bank. The share price plunged 90 percent in two days. In fact many companies and large lenders have taken a knock. Serious questions still got so bad, despite the bank's management's reassurances in recent months. The directors of the bank and its CEO including other high ranking officers have stolen funds, cashed in shares, running into millions of rands, lived a charmed life, bought houses that they lived in at exorbitant prices in the most beautiful suburbs, drove expensive cars and earned salaries and bonuses that were vulgar. One senior member who amassed a fortune had the audacity and temerity to state in the Sunday Times – F***K the poor. This is the state of play in respect of corruption and mismanagement in South Africa, with little down to these people. Where were the government and the regulatory authorities when all of this was happening? It is a clear indication that the South African financial system is in a parlous and precarious state and all these players were sleeping whilst Rome burnt. Donnelley (2014: 1) further reports that "Despite a R5.5 billion rights issue last year to recapitalize the loss – making bank, its management was adamant it could return to profitability. All of this changed after its shock trading update, revealing that it had faced 8.6 billion in losses and needed a further R8.5 billion from the market, sparking its share price plunge."

The question is simple. Why did the regulators not intervene sooner? On the other hand the Reserve Bank should also have rejected the bank's purchase of Ellerines and for entering poor undiversified business structures in providing more clients for unsecured credit. There can be no excuse for this state of affairs. High levels of bad debt and credit impairment are not only caused by reckless behaviour but also economic factors, which affect consumer's ability to repay debt. The Reserve Bank and the Treasury should be held responsible and those in charge of oversight must be given the boot and the CEO and high ranking officials of the African Bank must be hauled to the courts and criminally charged. Figure 4 below shows unsecured credit and the value of the African Bank:

Figure 4: Unsecured credit growth in 2013 and 2014 --- as did the value of the African bank

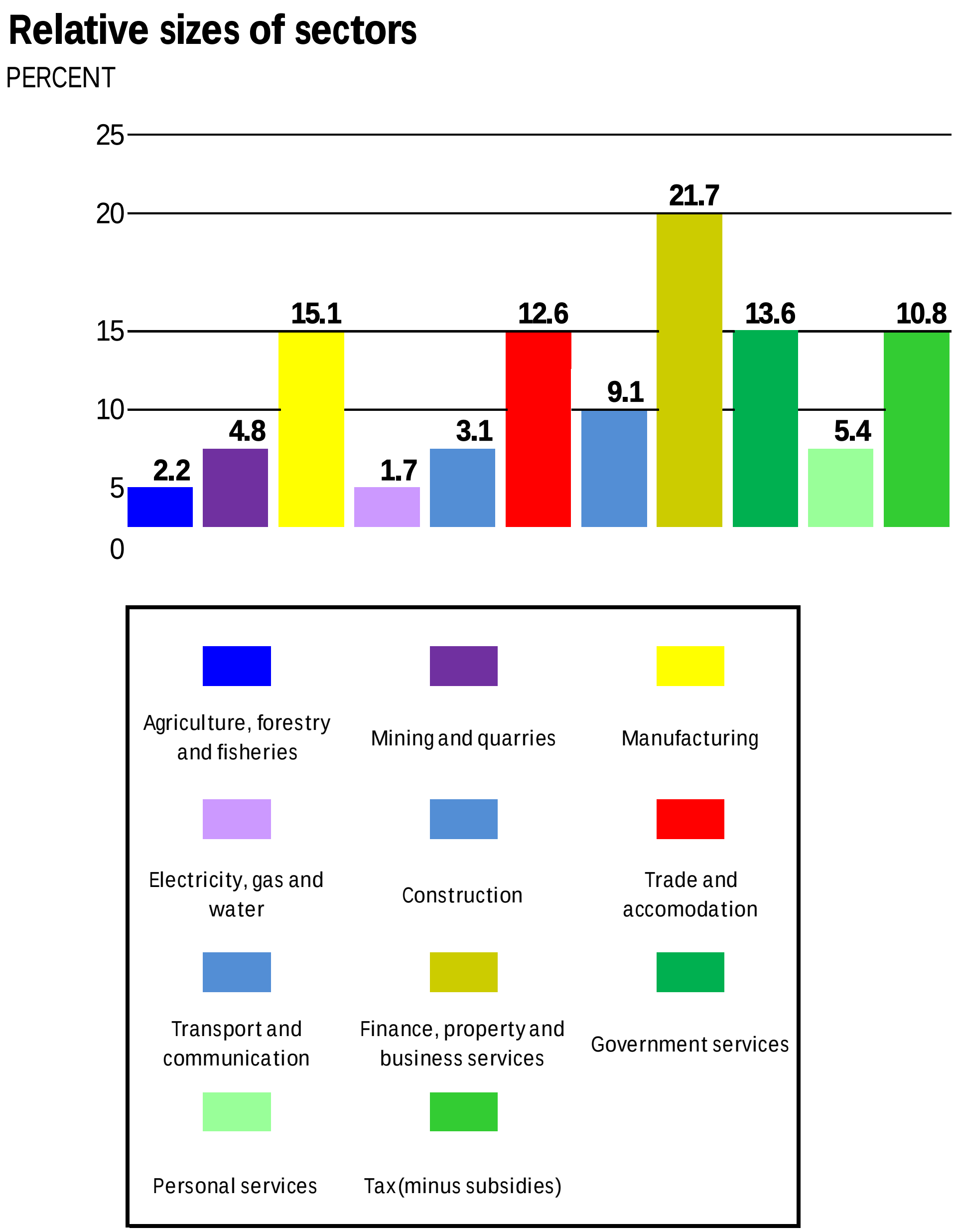


Source: Bloomberg and Moody's. 2014

POINT. SEVEN. PERCENT

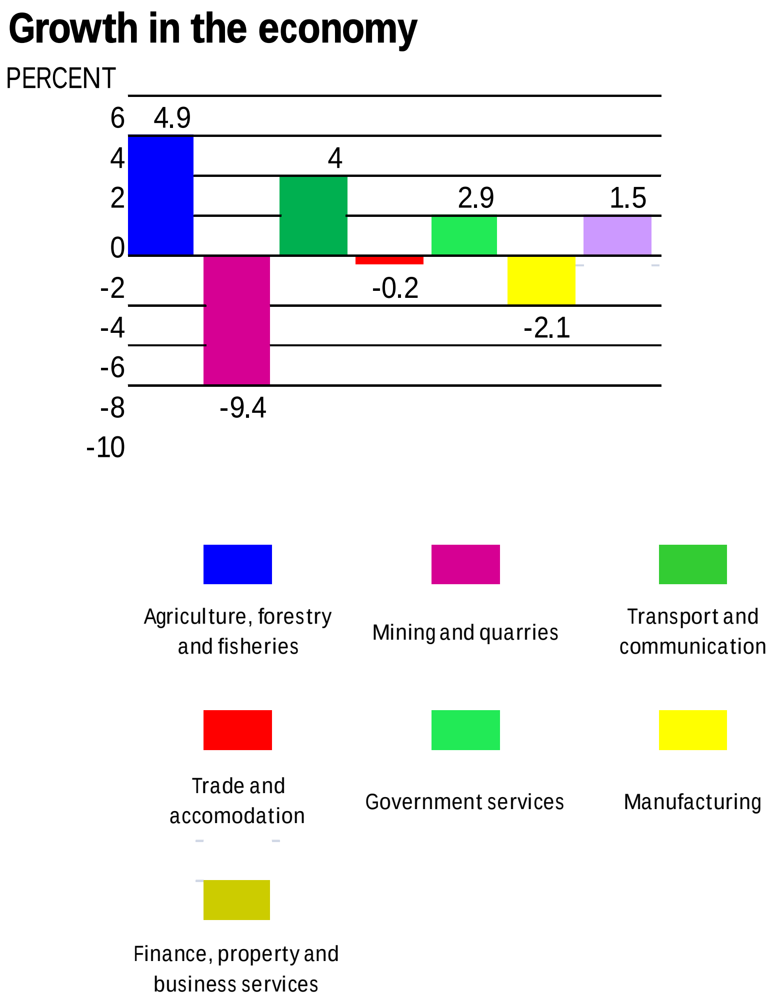
"In the political mayhem a small number has gone relatively unnoticed reports Ferial Haffajee (2014: 5) and further states that the economy grew by 0.7 percent in the past quarter. That's terrible. Its way below our peers on the rest of the African continent and it's well under our own projections in everything from the budget to the National Development Plan (NDP). Anemic growth is a much greater political risk to the government and one it seems blithely unaware of and therefore it's clear the middle and working classes are under the whip. Figures on food inflation show huge price hikes and are far higher than official inflation would suggest." It is obvious that the black middle class in respect to monthly food bills are stressed. This is exacerbated even further by the electronic road tolling and the coming hikes in power costs. In other words the state is unable to introduce countercyclical measures that have protected the ANC from political impact of previous near recessions. In reality the South African economy is in recession. Let's not fool ourselves. Figure 5 hereunder show the relative sizes of the sectors whilst figure 6 shows growth in the economy:

Figure 5: Relative sizes of sectors



Source: Statistics South Africa August, 2014

Figure 6: Growth in the economy



Source: Statistics South Africa, August 2014

GROWTH IS GLACIAL

There is no doubt that South Africa's GDP figures really disappoint because the economy grew at its slowest pace since 2009 in the second quarter of this year. The pace of growth was well below consensus forecasts of an average o.9 percent and for the first half of the year amounted to a mere 1.3 percent. Given the fact that South Africa is close to recession or in reality is in recession is a cause for serious concern. The Reserve Bank has raised its repo rate by 74 basis points to 5.75 percent so far this year and made clear that it intended to gradually normalize the rate which is about even with inflation (this is a government viewpoint but inflation is much higher). Evidence shows that this is a benign outlook for it would now be impossible for the Reserve bank to increase rates given its policy intention that was announced to increase rates. Mariam Isa (2014: 5) states that "Statistics South Africa showed that wholesale and retail trade in the motor industry fell by 0.2 percent during the second quarter of the year, the first decline in 5 years. This highlights the fact that demand is very weak as consumers buckle under higher electricity, petrol and food costs and the dismal employment outlook. Mining production fell 9.4 percent during the second quarter and manufacturing output also fell for the second quarter in a row, declining 2.1 percent with figures showing that the sector shed 60 000 jobs during that period. There are many impediments which will slow recovery, such as water and electricity interruptions and weak demand in the economy. The fact that Europe, one of South Africa's main trade partners, failed to notch up any growth during the second quarter does not bode well for manufactured exports. In reality the outlook is bleak."

PUTTING THE SQUEEZE ON SOUTH AFRICA'S FINANCE MINISTER

There is no doubt that South Africa's limited revenue stream leaves the finance minister with a political hot potato. The finance minister remains under the gun as slow economic growth is likely to put pressure on the fiscus and could increase the budget deficit and the closely watched debt to gross domestic product ratio. Analysts and economists predict economic growth for the year to come in as low as 1.5 percent (this might be wishful thinking). The minister of finance has predicted a growth rate of 1.8 percent. Whether in a technical recession or not, South Africa is in a terrible position and could impact negatively on revenue collection" (Lisa Steyn, 2014: 1). A fiscal deficit is always expressed as a percentage of GDP and a small GDP means the ratio deteriorates and with economic growth for the year estimated to be in the region of 1.5 percent, the deficit of GDP ratio will be larger than economic growth. In this regard Steyn (2014) indicates that "if deficit is bigger than the rate at which the economy is expanding, then the debt to GDP ratio must go up and that this ratio was at least 46 percent and, if more than 4 percent is added, the debt to GDP ratio will be more than 50 percent, the highest level seen since the 1990's" (Steyn, 2014). The issue is can South Africa create fiscal sustainability? There is no easy way of achieving this. It could be partly achieved by privatization of some government entities, but this would be politically difficult. Public servant salaries and grants will have to be curbed as an option and home in the custom union hand outs. The cutting of social expenditure is another option. Increase taxes but corporate tax would have to be left as it is in order to attract investment. Possibly increase VAT but zero rate food. If he attempts these things the question is whether he will receive political and labour support. This is unlikely. It is a catch 22 situation.

CENTRAL BANKS TRAPPED BY THEIR RESCUE SCHEMES

September 16, 2008 was the day that Lehman Brothers went down and became the cut – off point between conventional monetary policy, moving official interest rates in baby steps to keep inflation low, and unconventional monetary policy. Interest rates came down in big leaps to barely above zero. Central banks bought o long – term government bonds and risky assets, providing money in return in the process known as quantitative easing (QE). Forward guidance embedded the idea that borrowing would remain cheap for a long time. Schemes were introduced to get the commercial banks lending once more. The rule book was torn. In this regard Larry Elliott (2014: 8) points out that "almost six years on, the post Lehman regime remains in place. The perceived wisdom among central banks is that unconventional monetary policy prevented a deep recession and that unwinding the emergency measures too quickly will threaten what is still a tentative global recovery. Policies pursued by central banks since 2008 have not made commercial banks more profitable, but riskier and more likely to delay repairs to their balance sheets. Unconventional monetary policy is often assumed to benefit banks. However, there is little supporting evidence in this regard and it has brought about heightened medium – term risks."

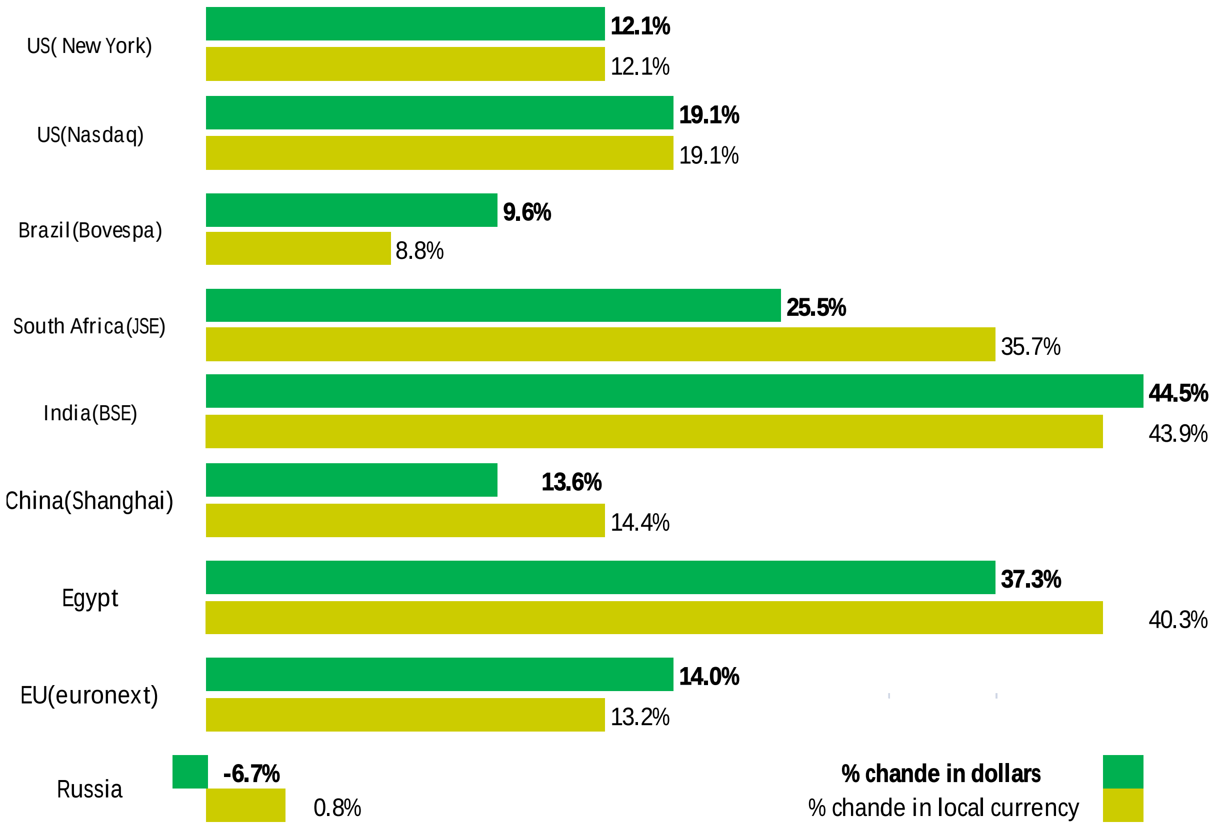
The implications are clear. One of the side effects of unconventional monetary policy is that banks are encouraged by low interest rates to seek out higher yielding and riskier investments and quantitative easing gives them more scope to do so. The risks increase the longer the unconventional policies remain in place. Elliott says that "the IMF has been a keen supporter of unconventional policies. He suggests that the fund and the world's leading central banks need an exit strategy from the policies of the past six years. Otherwise they could be storing up big problems for the future." It could put countries in the world into a deeper quagmire and scupper recovery of economies in both the developing and developed worlds.

MARKET EUPHORIA COULD END IN TEARS

The slow recovery in the United States and continued distress in Europe has seen investors piling into stock markets around the globe to enjoy the party while it lasts and driving the markets to euphoric heights. This market is overdue for a correction. The United States indicated that rates would not be rising soon and the European Central Bank signaled that the European Union might introduce fresh monetary stimulus into their stagnant economies. This may appear to be bad news for the world's largest economies but on the other hand, it is great news for the financial markets. Cheap money would continue for at least the foreseeable future. "The Johannesburg Stock Exchange (JSE) is one of many which have done well because of liquidity because of fiscal stimulus in the United States which reached its highest level in July, 2014. There is therefore no doubt that the market loves an improving global economy, not incredible high growth but an improving one and, the market also loves low interest rates and this has been experienced over the last five years and the bubble will burst once interest rates begin to rise" according to Lisa Steyn (2014: 2). McCurrie (In Steyn, (2014) said "dual – listed multinationals, have served to drive the JSE higher, are the one's vulnerable to a correction because of the poor performance of the South African economy. It is obvious that domestic shares operate in two segments and therefore the domestically driven stocks, especially financials are cheap at the moment but are priced for bad news."

Lisa Steyn (2014: 2) points out that "the world is stupid at the moment because in the past you had recession followed by economic recovery but, now it is perverse but when there is real good news, markets react negatively." In other words the South African Finance Minister, the treasury and the government must realize that the market is unpredictable because shares will not rise in the next three years a long – term investor should hang in. no one knows what the market is going to do. There are more buyers and sellers at the moment and no one wants to get out. The issue is simple can the government and investors predict, react and deal with this situation correctly, in a South African economy that is in decline and overtly stressed and hugely depressed with virtually negative growth that does not assist its recovery? Figure 6 shows the global stock exchange boom:

Figure 7: The global stock exchange boom



Source: WFE, August 2014

JITTERS OVER SOUTH AFRICA"S CURRENT ACCOUNT DEFICIT

The situation of the problematic that confronts the current account deficit of South African can be attributed to the high volume of imports and divided and interest payments. According to Lynley Donnelley (2014: 25) "there is a widening of the current account deficit and this could affect future interest rates." Given the economic stagnation of the country, it has to address challenges such as skills, education, labour legislation and the uncertainty of the implementation of policy imperatives that will deal with economic growth. The current account deficit for this year's second quarter "has widened beyond market expectations, from 4.5 percent of GDP to 6.2 percent and it forms part of the country's balance of payments, a measure of its trade with the rest of the world according to the Governor of the Reserve Bank, Jill Marcus" (2014: 25 in Donnelly). A purposeful analysis of the South African economy shows that the increased deficit is due mainly to underlying merchandise trade, specifically imports, which remain elevated at nearly R106. 5 billion, only a 2.5 percent decline from the first quarter. Donnelley (2014) indi9cates that "this was outpaced by a 6.4 percent decline in exports to R90.5 billion. Another factor is that oil imports contributed to the high import numbers, driven by the reliance of the electricity supplier's reliance on open cycle gas turbines, which are fed on liquid fuel, to ensure electricity supply."

The Reserve Bank of South Africa states in Donnelley (2014) that "payments associated with direct investments totaled R82. 7 billion and those related to portfolio investments totaled R48.7 billion. The cumulative outflow of R131. 4 billion far exceeded the cumulative inflow of invested related receipts of R61.5 billion." The sharp increase in the current account deficit has muddied the waters as it has put tremendous pressure on the rand, which has topped the R11 mark to the US dollar. There are tremendous weaknesses in the domestic economy related to interest rates and inflation and, all of this will impact negatively on funding the current account deficit. It has to be understood that raising interest rates will not necessarily bring about a reduction in the size of the deficit. On the side of caution the Reserve Bank of South Africa must clearly understand that it's role is not only to use interest rates as a tool for economic growth. All done and said the current account deficit is a cause of serious concern and there have to be modalities to deal with it as rapidly as possible in a coordinated and sustained manner. All of this is related to stymied development, an inefficient bureaucracy, the lack of productivity, overt corruption, and inept political leadership, which has a direct effect and relationship to the economy and hunger.

THE ECONOMY AND HUNGER

Poor nutrition not only costs individuals dearly by stunting their potential, but the country too. This is the reality of economies in many parts of the world given the economic crisis. The economic crisis has stymied growth and development and there seems little hope in the near future that the situation will improve. More than half of our population is hungry or at risk of hunger. That's more than 20 million people facing the daily terror of a clawing stomach with little hope of filling it. In the face of these numbers, national hunger may appear to be an intractable problem, so large and desperate that the task of findings solutions given South Africa's poor economy, government ineptitude and inefficiency is overwhelming, and any solutions devised will inevitably be inadequate and too expensive to implement. This is the reality. But in assessing the potential costs Stevenson and Dawson (2014: 33) state that "any solution to hunger, often forgets the huge costs of inaction: the cost of hunger itself. Taking action to ensure the realization of the right food is both a constitutional obligation and an economic imperative. This is because, as well as being a frightening human condition, hunger and malnutrition are a limit on human and economic potential. It leads to stunting, the physical and mental underdevelopment of children. It causes brain under development." This stymies the development of a country in all directions and must be a government problem. A problem that stems from government inefficiency and malaise, exacerbated by the mismanagement of the economy and wholesale pillaging of the school nutrition programme as was seen and experienced in the Limpopo Province in 2012 /2013 (Karodia, 2012).

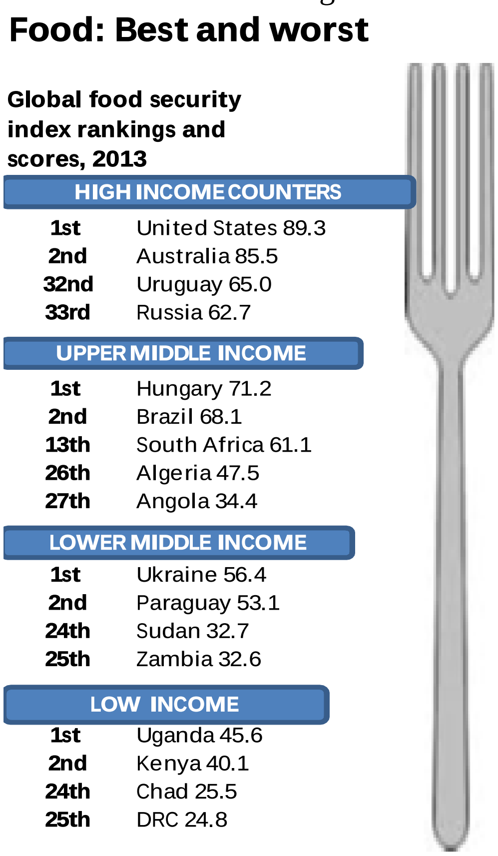
Children subjected to severe malnutrition in the first two years of their lives may be at a permanent intellectual disadvantage because it hinders cognitive development. They are unable to catch up at a later stage of life and therefore display difficulty in learning and cannot later participate in the economy. In other words the effects of hunger and malnutrition perpetuate poverty and retards both personal and national economic development. The South African government's inaction in terms of educational, health and economic outcomes; costs the country and the individuals as citizens and lowers their dignity. It is thus a human rights issue. Given the economic situation in South Africa, the wastage on the part of government, the corruption and so on, it is unlikely that this situation will improve in the near future. This situation cannot be allowed to continue. Stevenson and Dawson (2014: 33) point out that "the state is obliged to take 'reasonable legislative and other measures, within its available resources." How do we define what reasonable resources are? Given the fact that politicians and the bureaucracy are involved in overt corruption, tender rigging, non – delivery of services, wasteful expenditure, fruitless expenditure and a host of issues that remain unaccounted, when the rule of law is trampled upon and constitutional principles are compromised and completely eroded. The excuse that the government does not have the monetary resources van therefore not is accepted as people continue to die and children go to bed hungry. Stevenson and Dawson (2014) further point out that "in spite of food security being prioritized in government rhetoric, the required development of legislation, appropriate policy and implementable programmes has fallen short."

Existing South African policies and interventions that aim to alleviate food insecurity have been fragmented and narrowly linked to the work of specific government departments. These include agricultural credit and production programmes by the department of agriculture, forestry and fisheries, the national school nutrition programme by the department of basic education, the integrated nutrition programme by the health department, and the department of social development's 'food for all' programme and 'zero hunger' campaign. There are huge deficiencies within these departments that go beyond this paper and therefore will not be discussed. Stevenson and Dawson (2014) point out that "the strategy under the department of agriculture was criticized for being driven primarily by a focus on production and rural development. Despite this, the NDP places food security under the chapter on rural development and does not go far enough to frame food security beyond production, health and rural development. Thus, the challenge of addressing food insecurity and hunger in South Africa basically is how the economy is handled by the government and the amount of money it puts into theses crucial areas, in spite of the complexities involved, which is exacerbated by al ill equipped department of agriculture and an inefficient government both administratively and conceptually to deal with the interlinked priorities of poverty and hunger.

The National Health and Nutrition Survey of 2013, according to Stevenson and Dawson (2014) point out that "more than half of all South Africans remain food insecure, and nearly one in four children under the age of three have their growth stunted by malnutrition." This is an indictment to the government of the day, after twenty years of democracy; an indictment because food insecurity is not a technical issue alone. In other words it is an issue of the complete collapse of coordination by government departments; it requires political will and more than resourcing, direct relief, structural and institutional change that must address distribution problems within the food system that, is also plagued by inefficiency and corruption. There is also been a lack of an organized and balanced civil society voice that has let a corrupt and inefficient government off the hook without holding it accountable in terms of the right to food. In this regard, Stevenson and Dawson (2014: 33) indicate that "South Africa has not witnessed the bread riots seen in Tunisia and elsewhere and that civil society has not been drawn into policy – making or interventions to stop hunger. Fortunately, civil society's silence on the right of food is beginning to change. The people need to pressurize government to deal with these issues decisively. This can only be achieved if South Africans force government to deal with corruption and hold them accountable in respect of the handling of the budget on equitable terms and to the benefit of the country because the issues that arise in respect of health, education and development have a direct co - relation to the efficient use of monetary resources.

It is therefore imperative and of cardinal importance that consensus on key problems of the economy, the management of the public purse, holding the bureaucracy and politicians accountable within the framework of the rule of law and the guarantees that the Constitution of the country affords the people must be a safeguard to democracy and development. Programme design in South Africa has gone awry by the ineptitude of a government that has taken South Africa's poor for granted on the basis that it is a black government that understands the majority black population and therefore knows what it is doing for the poor and by implication should not be questioned. Policy has to change with implementable interventions through budgetary allocation and heightened accountability by both politicians and public officials. Strong public action is now required to empower people because South Africans can no longer wait to remain silent as mere spectators as Rome burns and the emperors live a decadent and hedonistic lifestyle. The issue of food and food security had to be raised because it has a direct co – relation to the management of the economy and the creation of a developmental state. Figure 8 below shows food at its best and worst:

Figure 8: Food at its best and worst



Source: EIU global food security index, 2014

THE SOUTH AFRICAN ECONOMY REQUIRES AGILE STRATEGIES

The paper has underscored the point that South Africa is in reality undergoing a period of recession. This is exemplified by the reality that Lefifi (2014: 6) states that "liquidations rose 9.8 percent year on year last month (July) and these numbers will surge as the rescue efforts of some companies fail, resulting in higher unemployment. Companies therefore need to be agile enough to take advantage of economic growth and have enough capital to withstand lack of growth. Companies with an annual turnover of between R300 million to R1.2 billion should focus on reducing risk through strong governance and trimming day – to – day costs.” Data reveals through a purposeful analysis that in South Africa only a few companies have generated uninterrupted real earnings growth significantly higher than GDP for 10 years.

Attributes that are consistent with sustained growth must include sufficient agility and stability where agility refers to a business that is willing to move fast enough and combat downward trends. Therefore, corporate survival strategies must and should include building a diversified business portfolio and making small acquisitions which, the niche brands have been doing for years. The idea is to establish a firmer footing in the home market. On the downside Lefifi (2014) indicates that “Aveng which is South Africa’s second largest construction company is to sell R2.5 billion in assets to reduce its debt burden. These situations will increase.” Given the mismanagement of the economy, the lackluster economic performance by the government, the loss of confidence in the South African economy by investors, the volatility of the rand as currency both locally and internationally due to fluctuations in the rand, increased borrowing, high salaries that the economy cannot absorb, trade union demands, increased strikes and demonstrations because of a lack of service delivery on the part of government and, a host of other factors, there is no doubt that that the third and the final quarter would continue to reflect a downturn in the manufacturing, wholesale and transport sectors. Mining output has fallen 24. 7 percent and therefore, the NDP would not be in a position to boost economic growth to 5 percent by 2019. South Africa requires new economic paradigms almost immediately in terms of dealing with its economy for purposes of the realization of a developmental state and to deal with increasing inequality, rising poverty and very high levels of unemployment.

CONCLUSION

Twenty years into democracy, but where do we stand as a society? There has been significant progress in South Africa but at the same time there are tremendous challenges that confront South Africa. The economy is in shambles. The government and its bureaucracy show increasing ineptitude and inefficiency. The paper has reflected upon the poor performance of the South African economy. The country has to regroup in order to bring about an economic equilibrium to promote the general welfare and promote the public good. It has to deal with corruption decisively. There has to be a struggle to build a South African economy and society in which all of the people, will have better lives and therefore, there has to be radical transformation in all directions of the economy, in order to create the desired developmental state.

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