LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

Quarterly Economic Bulletin 2019/20 Q 3

Foreword

The Quarterly Economic Bulletin is presented after the tabling of the 2019/20 Medium Term Budget Policy Statement during a time of low economic growth in the World and South African economies, with a rising unemployment rate, low business confidence and a low revenue generating base for government. All this has seen the country committing itself to debt in order to salvage state-owned entities and sustaining current expenditure.

Debt in itself is not bad, but the purpose it is deployed for that will determine whether debt is bad or good. Due to the social inequalities and service delivery backlogs, debt in South Africa has been largely driven by the need to sustain social expenditure in the country instead of spending it on capital accumulation. This would have not been a bad thing, however, the rate of replenishing the national revenue is much slower than the rate of social expenditure, which therefore make the fiscal framework unsustainable.

It is therefore becoming a necessity to support national fiscal framework to avert the country from reaching a fiscal cliff. Where harsh austerity measures will have to be enacted to control and reduce the national debt. Provinces, State owned entities and municipality have a tremendous role to play in achieving this broader and necessary objective of Fiscal Sustainability.

It is also important that the expanded rate of unemployment in the Limpopo province is understood to enable provincial government to implement to necessary policy to address the key challenge of unemployment.

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1 Introduction

South Africa is integrated into a dynamic global economy and thereby inter-dependent on developments in other countries. The quarterly economic bulletin will analyse developments in global economy which has been characterised by trade tensions and geo-political squabbles. The document will further analyse the global and national fiscal policy environment to understand the national policy posture and the impact of government debt at a provincial level. The document will conclude by delineating the Limpopo employment numbers, expanded unemployment rate in particular.

2 Economic Outlook

2.1 World Economic Outlook

There is a general slowdown in the economic performance with slower growth expected in many of major regions in the World Economy, with the exception of Sub Saharan region, which is expecting a 3.22 percent in 2019. The World economy is projected to decline from 3.61 percent in 2018 to 3.01 percent in 2019. This diminishing performance is attributed to the -0.5 percentage point decline in economic growth in Advanced Economies and -0.6 percentage points in the Emerging market and developing economies. Sovereign states political and economic decisions have created a lot of uncertainty in recent years and organisations such as the World Trade Organisation, that is responsible for trade negotiations, implementation and monitoring of trade agreements, has not been boisterous during trade tensions between USA and China.

Table 1: World GDP at market prices

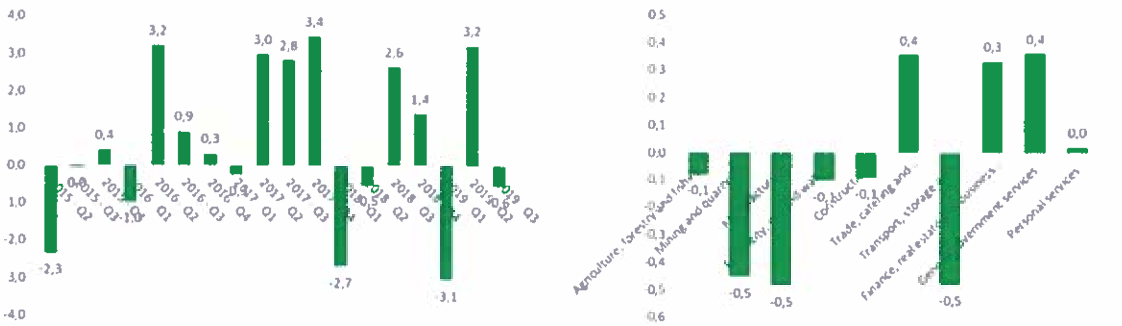
Country Group Name	2016	2017	2018	2019	2020	2021
World	3.39	3.81	3.61	3.01 ↓	3.41 ↑	3.56 ↓
Advanced economies	**1.73**	**2.46**	**2.27**	**1.68** ↓	**1.67** ↑	**1.62** ↓
Germany	2.23	2.47	1.52	0.54 ↓	1.25 ↑	1.44 ↓
Japan	0.61	1.94	0.81	0.89 ↑	0.47 ↑	0.45 ↑
United States	1.64	2.37	2.93	2.35 ↓	2.09 ↑	1.75 ↓
Euro area	**1.90**	**2.54**	**1.94**	**1.16** ↓	**1.39** ↑	**1.44** ↓
France	1.10	2.26	1.73	1.25 ↓	1.26 ↑	1.34 ↓
Germany	2.23	2.47	1.52	0.54 ↓	1.25 ↑	1.44 ↓
Italy	1.12	1.68	0.86	0.01 ↓	0.54 ↑	0.77 ↓
Emerging market and developing economies	**4.59**	**4.76**	**4.52**	**3.92** ↓	**4.55** ↑	**4.79** ↓
Brazil	-3.31	1.06	1.11	0.88 ↓	2.04 ↑	2.37 ↑
China	6.73	6.76	6.57	6.14 ↓	5.82 ↑	5.90 ↓
India	8.17	7.17	6.81	6.12 ↓	7.03 ↑	7.44 ↓
Sub-Saharan Africa	**1.38**	**2.95**	**3.22**	**3.22** ↑	**3.59** ↑	**3.67** ↑
Angola	-2.58	-0.15	-1.20	-0.27 ↑	1.15 ↑	2.87 ↑
Nigeria	-1.62	0.81	1.92	2.29 ↑	2.52 ↑	2.52 ↑
South Africa	0.40	1.42	0.79	0.66 ↓	1.08 ↑	1.44 ↑

Source: IMF, October 2019

2.2 South African Economic Outlook

South Africa's Gross Domestic Product (GDP) has shown relative improvement in the second quarter of 2019, growing at 3.2 percent, however lacklustre World economic momentum, low business confidence, has weighed down on full recovery. Real GDP decreased by -0.6 percent in the third quarter of 2019. The National Treasury anticipates economic growth to be an average of 0.5 percent for 2019 and pick up to 1.2 percent in 2020. While the International Monetary Fund (IMF) expects 0.6 percent economic growth and improve to 1 percent in 2020.

Figure 1: SA sector size and sector growth (2010 to 2018)



Source: StatsSA Gross Domestic Product 2019 Q3

The growth in the third quarter growth was supported mainly by Trade, catering and accommodation (0.4 percent), Finance, real estate and business services (0.3 percent), General government services (0.4 percent), Personal services (0.02 percent). Growth repressors where Agriculture, forestry and fishing, Mining and quarrying, Manufacturing, Electricity, gas and water, Construction and Transport, storage and communication recording -0,1, -0,5, -0,5, -0,1, -0,1 and -0,5 percentage points respectively.

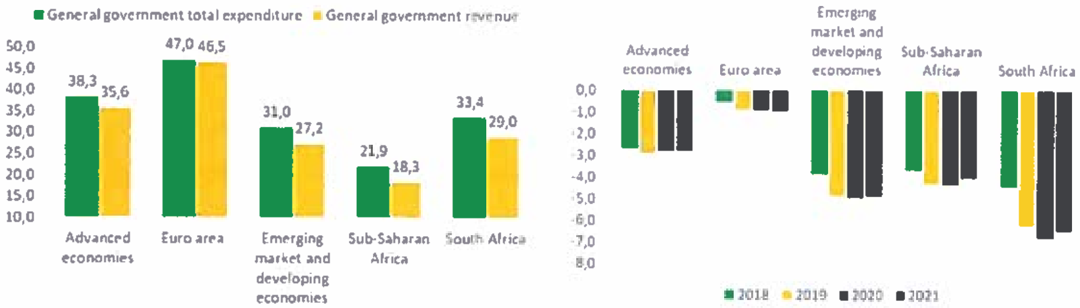
3 Fiscal Outlook

3.1 World Fiscal Outlook

Europe had the highest government expenditure as a percentage to total GDP recorded at 47,0 percent in 2018. However, the region has the lowest general government net lending/borrowing ratio of -0,5 percent in the same period. This is indicative of the regions prudent fiscal position, except for Italy and Spain. However, this is an average as there are some countries such as Italy that are much worse off.

South Africa had a general government net borrowing requirement of 4.4 percent of GDP in 2018 and expected to deteriorate to 6.2 percent of GDP in 2019, which is indicative of growing government expenditure that exceeds total revenue. Persistent risks such as rising unemployment and weak economic growth will continue to worsen the poor fiscal outlook in the medium to long run. National and international fiscal policies should ensure that debt ratios remain sustainable, which would also in the process, contain borrowing costs. Improving the rationalizing of recurrent non-core expenditure, and mobilizing revenue can help preserve capital expenditure needed to boost the growth potential of the South African economy.

Figure 2: Government total expenditure and revenue and General government net lending/borrowing

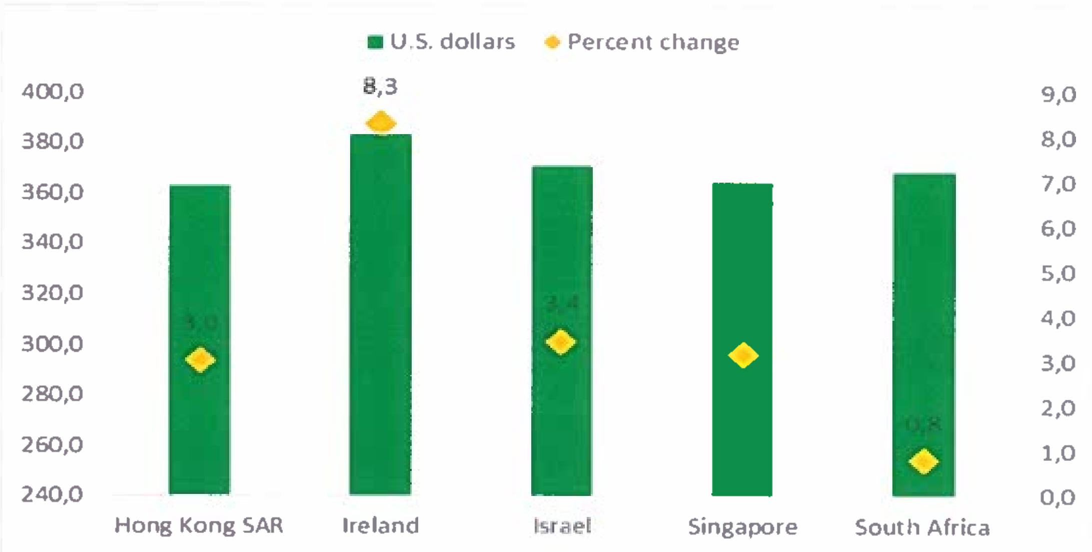


Source: IMF, October 2019

3.2 SA and Allied international countries

The four countries in the world that have similar economic sizes, measured by Gross Domestic Product (GDP) US dollar, as South Africa are Hong Kong SAR (USD 362,7), Ireland (USD 382,8), Israel (USD 370,6), Singapore (USD 364,1). While South Africa's economy in the same year of 2018 was measured at USD 368,1. However, these allied countries have much higher economic growth than South Africa. If South Africa economy doesn't recover, these countries could quickly and easily suppose South Africa in terms of economic size.

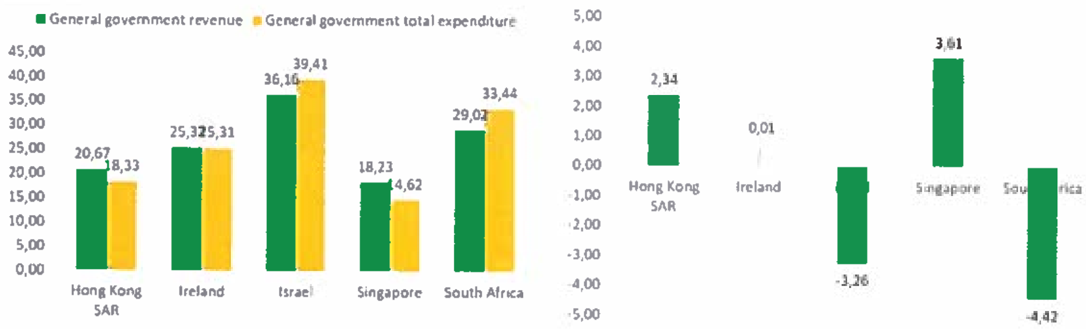
Figure 3: Gross domestic product, current prices U.S. dollars and Percent change



Source: IMF, October 2019

Amongst the five countries, only Hong Kong and Singapore administer a budget surplus fiscal framework thereby making them net lenders. This is an ideal situation in economic hardships as the economies do not have to be exposed to unnecessary financial market risks to embark on counter cyclical fiscal policy. While on the other hand Ireland, Israel and South Africa are managing a budget deficit fiscal framework. The gap is more pronounced for Israel and South Africa with General government net lending/borrowing rate recorded at -3,26 percent and -4,42 percent respectively. These two countries are susceptible to protracted and rising government debt accumulation and suffer high debt service cost. In the future, the government may have to increase taxes or cut spending in order to reduce the deficit.

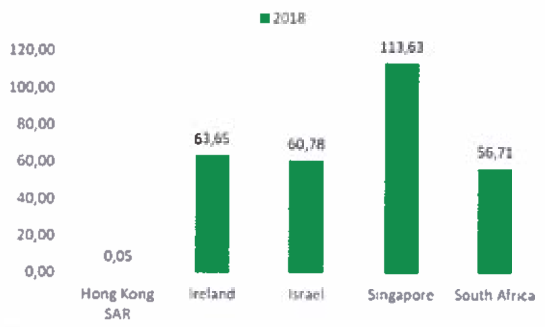
Figure 4: General government total revenue and expenditure Percent of GDP

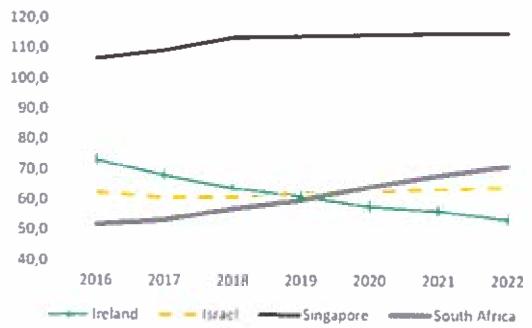


Source: IMF, October 2019

The average government gross debt to GDP for Ireland, Israel and South Africa average 62.5 percent per annum in 2018. Except for Hong Kong which recorded 0.05 percent and Singapore 11.3 percent. Singapore's ratio has been on the rise over the years catching up with developed economies with 3 to 10 times its size. Our inference in the country's fiscal indicators is that they quickly accumulated debt to improve infrastructure expenditure, however even after realising positive budget balance, they did not opt to drastically reduce their accumulated debt. While Hong Kong has always maintained a low debt position over the years, despite of the financial melt downs. South Africa's ratio is expected to be 59,8 percent in 2019 and 71,0 percent in 2022, all things being constant, the ratio is alarming given the low economic growth and low revenue generation base.

Figure 5: General government gross debt percent of GDP in 2018 and in a trend line



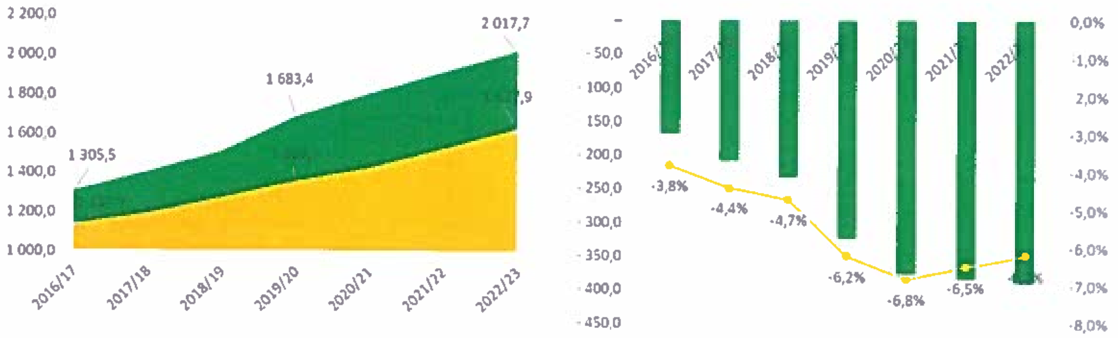


Source: IMF, October 2019

3.3 South African Fiscal Outlook (National Debt)

Government adjusted government expenditure for 2019/20 is R1 6 trillion while revenue collection is adjusted to R1.4 trillion. Clearly government expenditure that surpasses governments ability to raise concomitant revenue and this is a trend projected up to 2022/23. In 2019, government expenditure will exceed government revenue by R 324 billion. The budget balance is expected to grow to R389 billion in 2022/23 representing 6.2 percent of the nation's GDP.

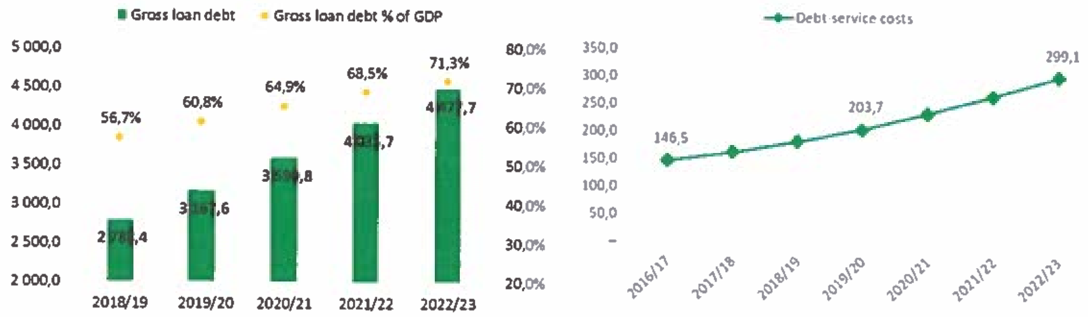
Figure 6: Main budget revenue and expenditure and budget deficit and as a percentage of GDP



Source: National Treasury

Due to the weakness of government to collect revenue and increasing government expenditure, National Treasury had to sought finances in the market. The accumulated total government debt increased from 2.8 trillion in 2018/19 financial year to 3.1 trillion in 2019/20. This amount is expected to grow to 4.5 trillion in 2022/23 representing 71.3 percent of the national's GDP. This growth in debt will increase the amount government debt-service costs (R 203.7 billion in 2019/20 to R299.1 billion in 2022/23) which is money that could have been used to advance developmental agenda.

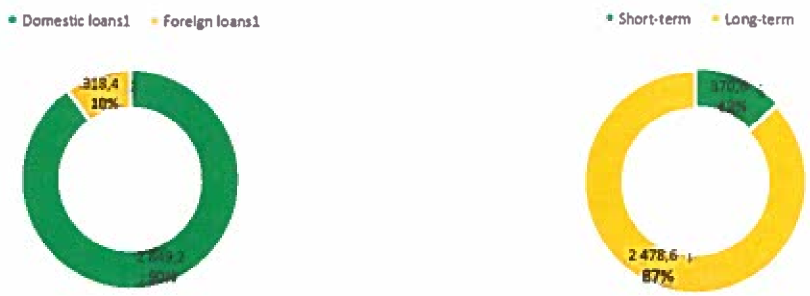
Figure 7: Total national government debt and debt service cost



Source: National Treasury

South Africa foreign dominated debt is only 10 percent of the gross government debt and about 90 percent is generated in the domestic market. Of the 90 percent domestic debt, 87 percent is long term debt and only 13 percent is short term debt.

Figure 8: Debt origin



Source: National Treasury

4 Impact of national debt on expenditure allocations at Provincial level

The rise in national debt implies the following things at a provincial level

4.1 Provincial government departments

1. Reduced national transfers in the form of equitable share formula and conditional grants.
2. Reduced contingency funds for disasters as funds will be directed towards debt service costs
3. Increased emphasis for provincial departments to reprioritise- deferring certain expenditure items
4. The fiscal tightening may also lead to process re-engineering in departments to realise efficiencies in their operational processes.

4.2 Individualsding to reduced average disposable income per household.

4.3 Differed

1. Unsustainable increase in government debt may lead to an increase in tax- thereby lea service delivery- projects may be rationalised to save costs

South Africa being a developmental state, we need a very careful balance in directing resources towards accelerated job creating economic growth while perusing social development. This therefore require that government restrict the growth in social welfare and embark on a country wide public and private investment drive. Business community is equally resourced, but seeking government leadership. I don't understand the last sentence

5 Expanded Unemployment in Limpopo

Unemployment is a multi-dimensional phenomenon showing the imbalance in economic activity. Moreover, and importantly from a developmental state point of view, it is also considered a social phenomenon because of its effects on the social structure of societies. Limpopo has, on average, enjoyed the lowest levels of strict unemployment over the decades competing with Western Cape and Kwa-Zulu Natal provinces' despite the province experiencing relatively low development manifesting through low economic growth, low records of foreign direct investment, low industrialization, high poverty rates, relatively high illiteracy rate, and the province being 87 percent rural in nature.

It is therefore paradoxical that the strict unemployment of the province is constantly low yet economic and development indicators are exhibiting a dire image of the province. This begs for a delineation of the unemployment characteristics in the province and come up with an understanding of the status quo. Given the non-correlation of strict unemployment and development indicators, there is a need to understand the rational of the low unemployment rate in the province.

Statistics SA defines unemployment as persons according to the Official definition are those (aged 15–64 years) who were not employed in the reference week; actively looked for work or tried to start a business in the four weeks preceding the survey interview; were available for work, i.e. would have been able to start work or a business in the reference week; or had not actively looked for work in the past four weeks, but had an intension to get a job or start a new business to start at a definite date in the future and were available.

5.1 Unemployment trends

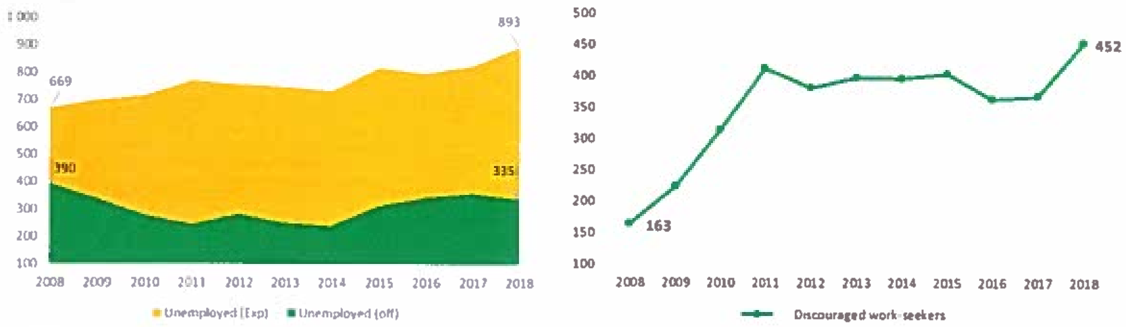
Provinces with strict unemployment rate above 30 percent in the second quarter of 2019 were Eastern Cape, Mpumalanga, Free State, North West and Gauteng recording 35.4 percent, 34.7 percent, 34.4 percent, 33.0 percent and 31.1 percent respectively. Notably, Limpopo province has the lowest unemployment rate in the country at 20.3 percent. If the strict definition of unemployment is what we should go by, by implication Limpopo province is supposed to be able to absorb all persons that are in search of employment (high absorption rate) and therefore imply relatively high living standards compared to other province. However, the implication is nullified by the volume of discouraged persons- described as potential labour force- who have given up searching for work or start initiatives towards self-employment. Limpopo's expanded unemployment is recorded at 41.1 percent which has the highest percent point difference of 20.8 percent. In implication, the percentage of the discouraged persons in Limpopo is 51 percent more than the persons that are actively searching for employment. Relatively speaking, Limpopo has the highest incident of despondent potential labour force that otherwise could have been actively participating in the local economy but are challenged.

Figure 9: Strict and Expanded unemployment and percent point difference

Source: StatsSA QLFS 2019

The official number of people without jobs in the province has been declining overtime- decreasing by 55 thousand people from 2008 to 2018. However, the converse is happening on the expanded unemployment number, people without jobs has drastically increased from 669 thousand in 2008 to 893 thousand in 2018, indicative of the growing despair of citizens who have given up looking for jobs in the market. Discouraged work seekers increased from 163 thousand in 2008 to 452 thousand in 2018 implying that the absorption rate in Limpopo is suboptimal due to less job creating economic growth.

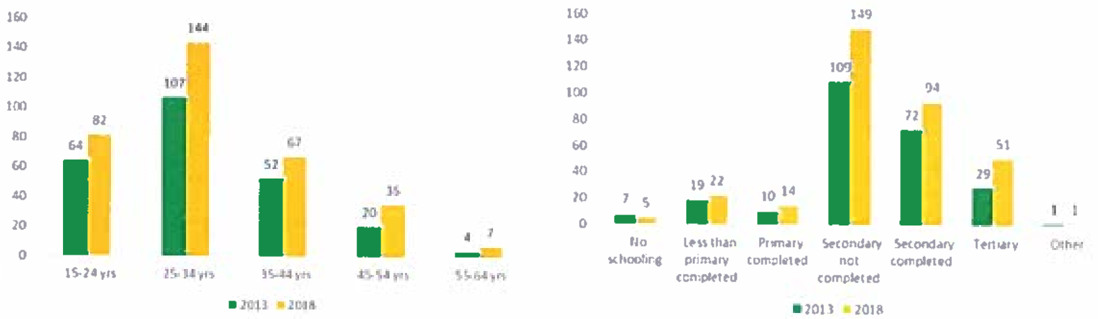
Figure 10: Unemployed persons (Strict and Expanded) and Discouraged work-seekers



Source: StatsSA QLFS 2019

The bulk of unemployed persons in Limpopo province is concentrated between age 15 – 34 years- which by definition is the youth. In 2018 67.3 percent of the unemployed people in the province was the youth group. This is symptomatic of 2 factors, firstly, the province is very young, in terms of age, with a mean age of 24 years. Secondly, the largest amount of the unemployed persons in the province have not completed secondary school or simply completed secondary phase without furthering their studies. Therefore, the youth in the province have very low chances of securing sustainable and sophisticated and high skilled jobs.

Figure 11: Unemployed persons by age group and by highest level of education

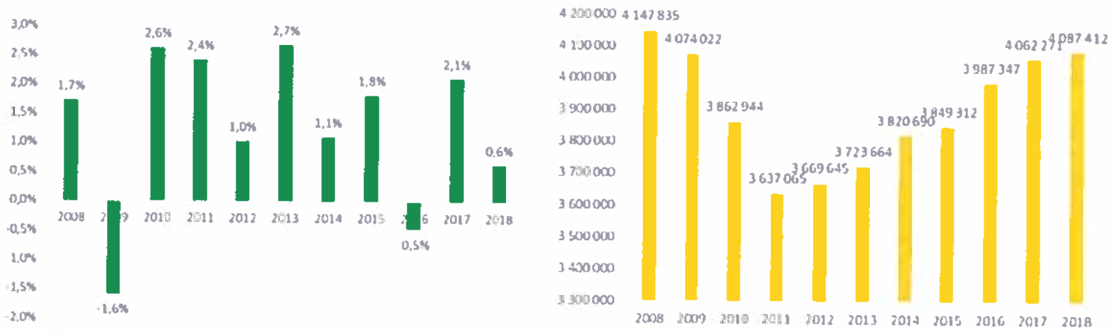


Source: StatsSA QLFS 2019

5.2 Limpopo Economic Indicators

Although Limpopo has low unemployment rate, its economy has grown on average by 1.5 percent between 2009 to 2013 and only 1.1 percent from 2014 to 2018. This unfortunately is below the envisaged growth rate stipulated in the 2014 -2019 Limpopo Development Plan of 3 percent. By implication, the province has been performing below optimal potential. This was accompanied by a rise in the number of people living in poverty (below the upper poverty line) recorded at 4.08 million people.

Figure 12: Limpopo GDP growth rate at constant prices and levels of poverty



Source: IHS Markit 2018

From the trend analysis, the low unemployment rate in the province is not because people are working, however, it is driven by a large number of discouraged work seekers exiting the labour market and therefore counted as not actively searching for employment. The policy interventions of government, should be targeted at understanding the reasons why people are getting discouraged. From our preliminary analysis the following reasons can be identified: 1. There is high number of sub tertiary graduates- this limits many people from expanding job search and content to elementary job offers which are saturated. 2. There is a large pool of people with no schooling or up to primary school level- this limits their probabilities of securing a decent paying job. 3. Low economic growth- this is a demonstration of low business confidence therefore private sector is shy from expanding operations and therefore not hiring people.4. Less aggressive rural development programmes by government. 5 The high cost of job searching (rural residences are more challenged than those in urban regions).

5.3 Research findings

1. The research found that there is a general consensus in the definition of strict unemployment and expanded unemployment- where the later includes

discouraged work seekers. These are individuals that want to work but are not actively searching for a job as they have lost hope, wanted to work but there are no jobs in the area or were unable to find work that required their skills. However, a number of researchers agree that there is no material difference between those searching for work and those discouraged- as they are all potentially employable. Therefore, unemployment should be looked at from the expanded definition.

2. The provincial working population is 62 percent of the total population. Therefore, if all of the 62 percent where in employment, they would be supporting only 38 percent of the population that is economically inactive due to the fact that they are not at an age where they can be employed.

3. The research found that 48 percent of the working population is either working or actively searching for employment. This is the total labour force in the province (using the strict definition of unemployment). However, coming from the premise that expanded unemployment is a true reflextion of unemployment – the Limpopo labour force would be 62 percent (using the expanded definition of unemployment).

4. Although Limpopo province has the lowest unemployment rate of 20.3 percent, the province has the highest percentage point difference between strict unemployment and expanded unemployment. This means that the discouraged persons in the province are equal to the number of people searching for employment. Discouraged work seekers increased from 163 thousand in 2008 to 452 thousand in 2018

5. The largest age cohort of the unemployed persons is between 15 and 34 years' old which is referred to as the youth unemployment. This group makes us 67.3 percent of the total number of people that are searching for employment

6. However, an important finding is that most of the unemployed people poses secondary school qualifications and a significant number have not completed secondary and primary school. This significantly reduces their probabilities to

secure a descent and sustainable job to advance their development. The nature of unemployment in the province is structural unemployment rather than frictional or cyclical unemployment. Given that the province is embarking on an aggressive industrial strategy- chances are that most people that will be occupying high skilled jobs in the Industrial Parks and Special Development Zones will be coming from other provinces either than Limpopo.

7. Similarly, the jobs that are currently occupied in the province are elementary, craft and related trade and sales and services. These are mainly seasonal jobs and low paying jobs. Professional and technical jobs are few and most probably concentrated in the Community Services and Finance sector.

8. The research further found that there is no correlation between development indicators and strict definition of unemployment, however there is correlation between expanded unemployment and development indicators in the province.

9. Finally, the persistent growth in the discouraged people (expanded unemployment rate) in Limpopo is creating a significant economic and social challenge that will stall the pace of development in the province. The absence of income in households reduces the quantum of tax collection by SARS (South African Revenue Services) and therefore reduces the spending potential of government. Furthermore, unemployment deteriorates the psychological and health wellbeing of individuals, increasing the state burden to take care of a fragile society who may resort to indulgence in illegal substances and commit crime.

5.4 Recommendations

StatsSA should conduct a targeted survey to understand the full dynamics of the discouraged labour force. This will assist government in developing accurate corrective programmes to curb the growing number of people in this grouping.

Limpopo government must develop economic policies and programmes that seek to develop growth enhancers in the province. This will commence by developing and spurring growth in sectors in which the province already has comparative advantage and which are labour absorbing such as (Agriculture, Manufacturing (value addition) and Tourism). There must special focus in developing the sectors and increase productivity of the sectors by exploring Public Private Partnerships (PPP) as private sector must be provided support in growing the economy and jobs in the province.

The above programmes can be complimented by aggressively rolling out rural development programmes. This makes policy sense as the province is 87 percent rural. This can be achieved by increasing support to farmers and increase productivity of all the farmers to provided surpluses that can serve both domestic and international markets. Such programmes are most likely address the migration problem where people migrate to urban industries in search of employment opportunities.

6 Conclusion

The country needs to halt the increase in the national debt, particularly during subdued economic growth periods. This may commit the country into perpetual debt trap and compromise future economic recovery. Furthermore, there needs to be deliberate and concerted effort by all spheres of government to focus on resuscitating the country's economy through collaborate expansion of gross fixed capital formation in strategic economic centres and aggressively pursue industrialisation projects

While Limpopo province has a deep rooted problem of unemployment disguised in the expanded definition of unemployment. This poses a serious risk to the Limpopo government as these persons are firstly discouraged, secondly they are unskilled and thirdly they are young. This is fundamental for policy makers to understand and craft policies that will address this complexity. If no policy responses are designed to address the phenomenon, it will culminate into other social ills that will require fiscal policy to correct such as crime prevention, deterioration of the health of citizens, high dependency on government for public goods, services and social welfare. The rise in expanded unemployment is a significant cost to the state and a hurtle to advancing inclusive development in the province.