

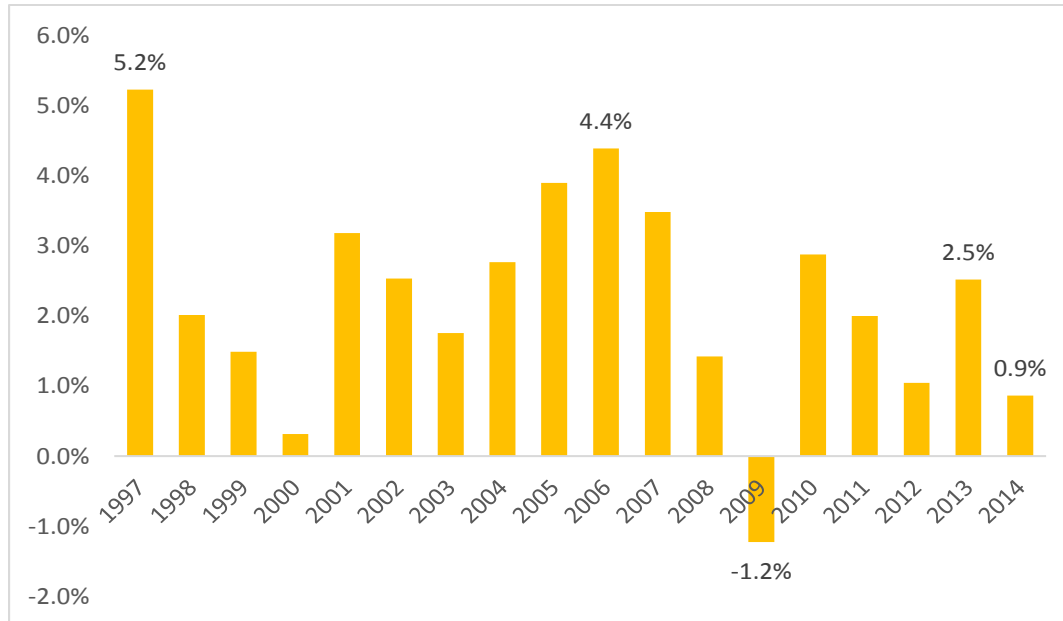
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- The provincial economy is mainly driven by primary and tertiary sector of the economy with minimal high value economic activities
- Provincial growth resilient but under pressure due to external shocks such as weak global economic growth, low commodity demand, drought conditions and weak investor confidence
- The consumer price inflation started assuming an upward trend both nationally and provincially quarter on quarter
- According to credit rating agencies the assignment of a stable outlook reflects policymakers' commitment to managing government debt growth over the medium term and the broad political support for a macroeconomic strategy, including the National Development Plan (NDP)
- Given the low business expansions and new business ventures, government is under pressure to stimulate economic growth through the fiscal policy.

PROVINCIAL ECONOMIC GROWTH



The Limpopo's economy managed to maintain positive growth over the years with few exceptions. The local economy contracted significantly between 2006 and 2009, the down-turn was largely influenced by global economic developments.

The provincial economy suffered negative growth from 4.4 percent in 2006 to a low of -1.2 percent in 2009. Though the economy recovered from 2010, the growth was lacklustre as economic growth in 2014 was only 0.9 percent. Growth will remain sluggish into 2016 to 2017 due to the El Nino climate phenomenon and low aggregate demand for minerals globally.

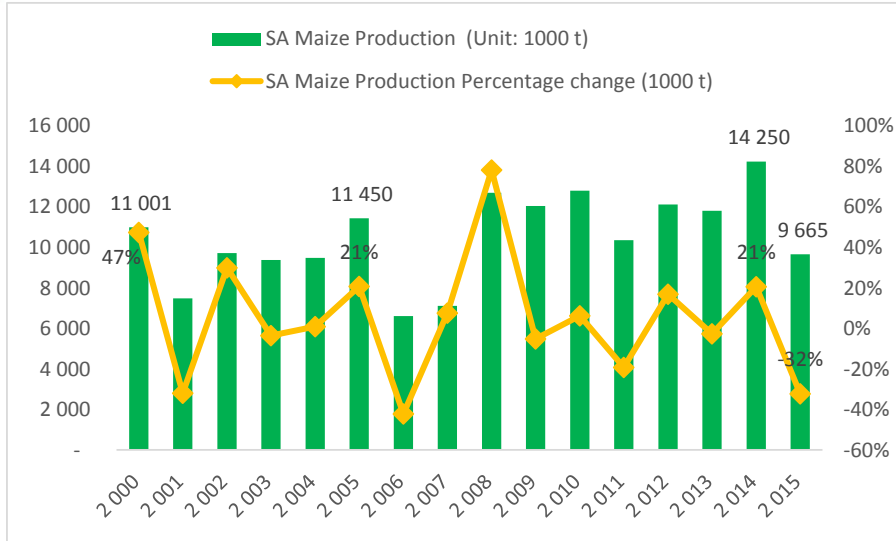
PROVINCIAL ECONOMIC GROWTH

Years	1996	1999	2004	2009	2014	2019
Agriculture	3.2%	3.0%	3.6%	3.2%	2.6%	2.5%
Mining	15.5%	20.3%	23.9%	28.4%	27.6%	25.4%
Manufacturing	5.4%	4.2%	4.2%	2.9%	2.6%	2.3%
Electricity	3.9%	3.1%	2.6%	2.6%	4.7%	5.4%
Construction	3.6%	2.5%	1.8%	4.0%	3.5%	4.1%
Trade	15.8%	13.8%	13.9%	15.7%	16.3%	17.3%
Transport	8.2%	8.4%	9.2%	5.1%	5.4%	5.6%
Finance	17.9%	16.5%	16.2%	15.5%	13.0%	13.3%
Community services	26.7%	28.3%	24.5%	22.5%	24.3%	24.2%

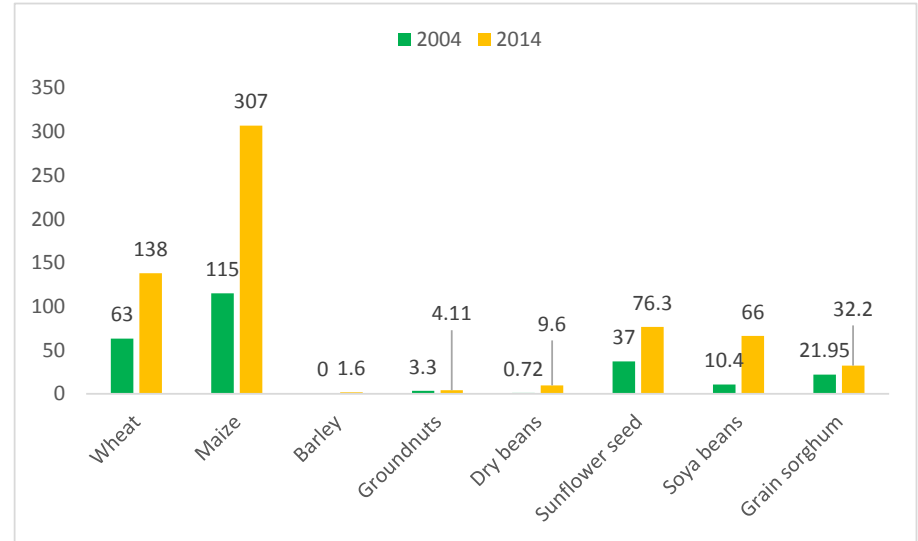
Limpopo's economy is largely driven by Mining Sector, Community services and Trade sector which contribute 27, 24 and 16 percent respectively in 2014. The mining sector's contribution to the local economy has been increasing over the years, as it increased from 15 percent in 1996 to 28 percent in 2014. The least contributing sectors are Agriculture, Manufacturing and Construction sectors which contribute 2.6, 2.6 and 3.5 percent respectively to the provincial GVA.

EFFECTS OF DROUGHT IN AGRICULTURE SECTOR

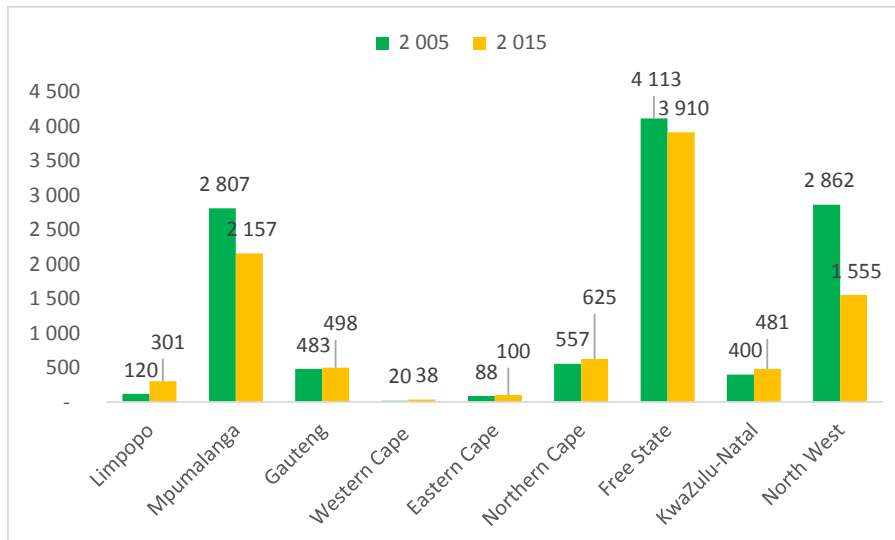
Commercial maize production: Total (Unit: 1000 t)



Limpopo Commercial Crop production: (Unit: 1000 t)



Commercial maize production: Production per province (Unit: 1000 t)



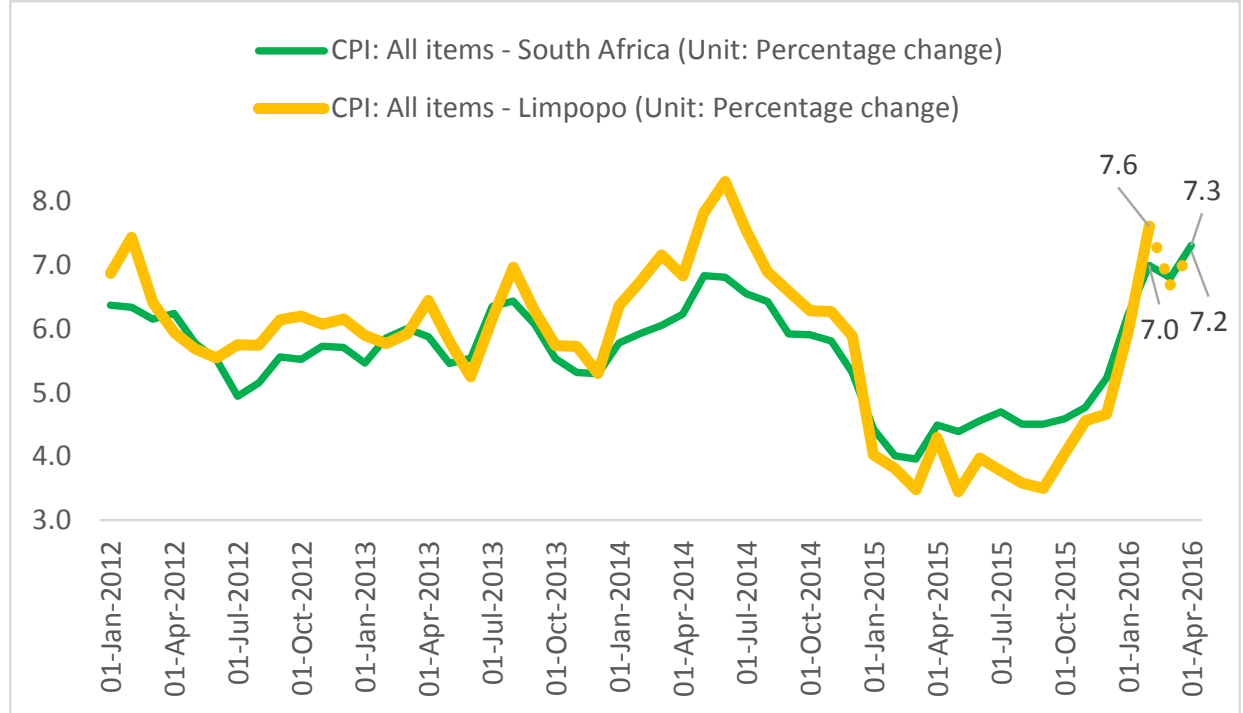
Food security has always been a policy priority in South Africa which has led government to support small emerging farmers and rural development projects with the intention of augmenting food production in the country. The dawn of El Nino weather phenomenon has compromised food production and employment creation in the Agricultural sector. More rural farmers who still utilise traditional farming technology will barely survive the drought conditions. From an economic perspective, shortage in food supply will fuel food prices disadvantaging poor and low income households who will pay more for fewer consumable commodities.

CONSUMER PRICE INFLATION

Limpopo CPI rose from 5.9 percent in January 2015 to 7.6 percent in February 2015. Much of the inflation was influenced by exogenous factors such as the unrelenting drought conditions that drove food prices up. Other CPI drivers were health, Transport, clothing and utilities (Electricity and Water).


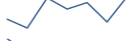

















The provincial CPI is project to be 7.2 percent in April 2015, a level above the upper 6 percent band of the inflation target. Based on the assumption that the El Neno phenomenon does not abate and the economy fails to gain momentum in medium to long term. Unfortunately, this gives the monetary policy little room to relax the interest rate, which will subsequently leave a lot of consumers heavily debt trapped and decelerate economic growth at least from the consumption perspective.

South Africa and Limpopo CPI

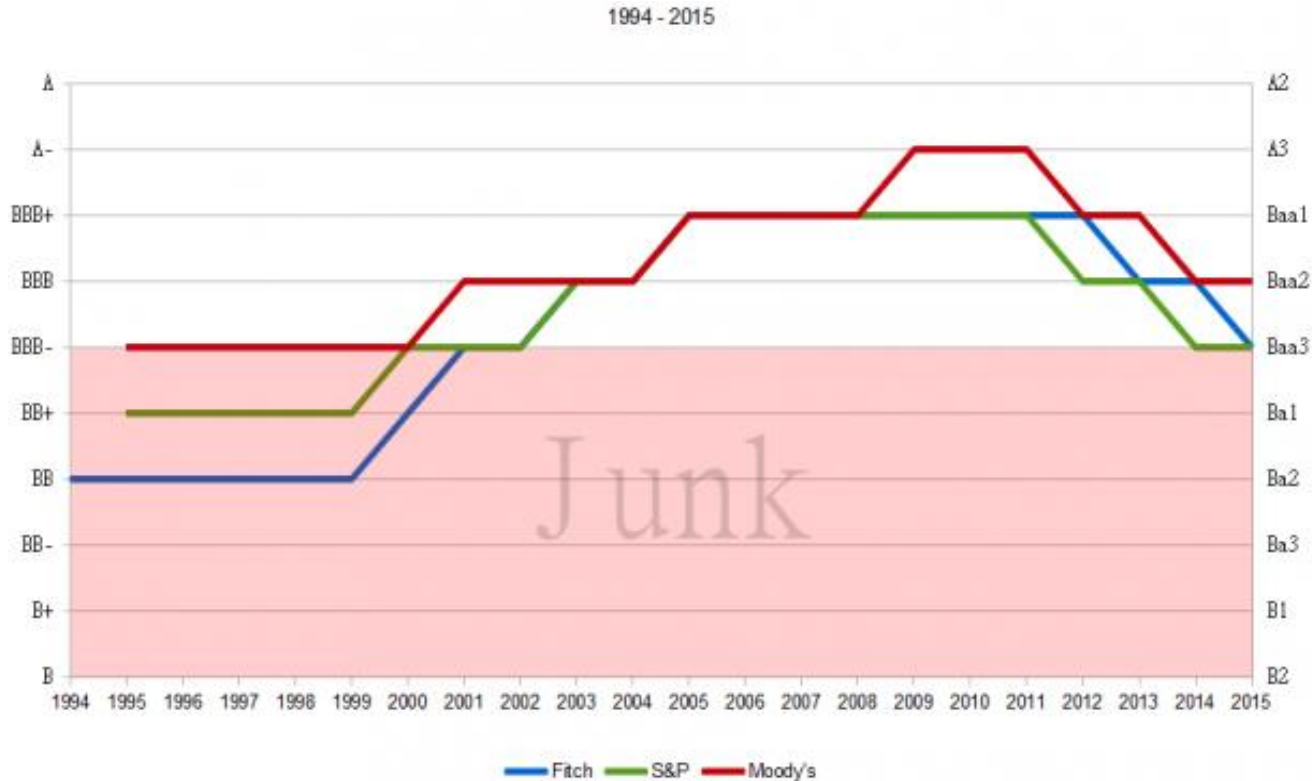


CONSUMER PRICE INFLATION

Inflation by category

CPI: Unit: Percentage change	28-Feb-2010	28-Feb-2011	29-Feb-2012	28-Feb-2013	28-Feb-2014	28-Feb-2015	29-Feb-2016	Trend
South Africa	5.5	3.6	6.3	5.9	5.9	4.0	7.0	
Limpopo	4.2	2.9	7.4	5.8	6.7	3.8	7.6	
Health	9.5	6.8	5.1	3.2	4.0	5.3	7.0	
Transport	4.9	2.2	8.4	9.2	6.2	-4.6	7.3	
Communication	-4.4	-2.5	-2.8	-2.0	1.3	-3.0	0.2	
Education	7.4	11.5	7.2	8.9	9.5	9.6	10.1	
Food and non-alcoholic beverages	1.3	0.0	14.4	2.5	10.0	4.8	12.6	
Clothing and footwear	3.9	0.4	6.1	5.4	6.2	6.6	7.0	
Housing and utilities	6.7	8.9	5.1	8.1	5.0	4.6	4.5	
Clothing and footwear	3.3	0.0	7.1	5.0	6.6	6.5	7.7	
Public transport	0.0	0.5	10.8	19.9	0.5	7.3	0.4	
Alcoholic beverages and tobacco	11.3	7.3	4.6	9.4	9.6	7.4	4.3	
Household contents and equipment	1.9	-2.3	1.2	4.7	2.7	3.9	0.9	
Water and other services	7.5	6.7	3.3	4.4	7.1	6.4	7.8	
Electricity and other fuel	12.3	26.7	8.3	13.8	6.4	6.1	10.6	
Food - Other food	6.2	2.5	12.9	2.9	6.6	6.2	7.4	
Food - Meat	1.0	-3.8	20.2	4.3	18.4	11.1	9.2	
Private transport operation - Petrol	22.1	12.3	21.9	11.9	14.1	-25.7	20.1	
Food - Bread and cereals	-4.7	4.6	15.2	-1.7	7.5	1.5	16.8	

SOUTH AFRICAN AGENCY RATINGS



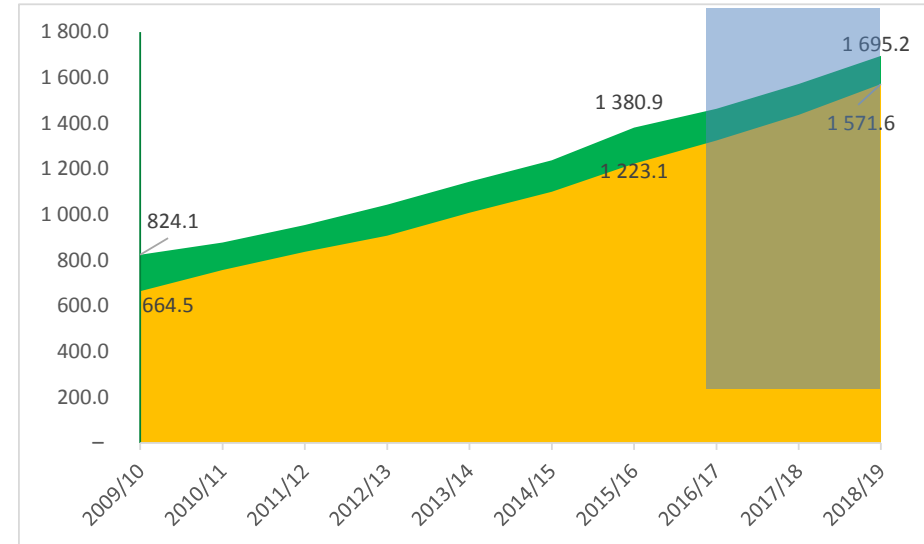
Looking at South Africa's credit rating history from the diagram above, it is clear that the South Africa's credit rating levels peaked between 2008 and 2011 and the country has suffered ratings cuts consistently since 2011 and since the global recovery from the economic crunch, the country has not managed to overcome economic challenges such as widespread unemployment, corruption and labour unrest, and this further pushed the country rating towards junk status.

The prospects of the country to be in Junk status will translates automatically to high cost of borrowing. The immediate defence mechanism for South Africa should be based on three pillars i.e. a credible fiscal stance; re-enforce central bank independence; and finally, respect for all other independent institutions

NATIONAL FISCAL POLICY FRAMEWORK

Government expenditure has increased from 824.1 billion in 2009/10 to 1.380 trillion in 2015/16 and estimated to rise to R1.69 trillion by 2018/19 financial year. The growth in the current expenditure has been higher than the national receipts since 2009/10, leaving the budget balance to be negative. In 2015/16 the budget deficit was recorded at 3.9 percent. Due to the rising social security and occasional counter cyclical fiscal policy stance, the budget balance is projected to remain negative in the MTEF period exerting pressure on the net government debt.

National Revenue and expenditure (R 000 000)



National government debts to GDP ratio

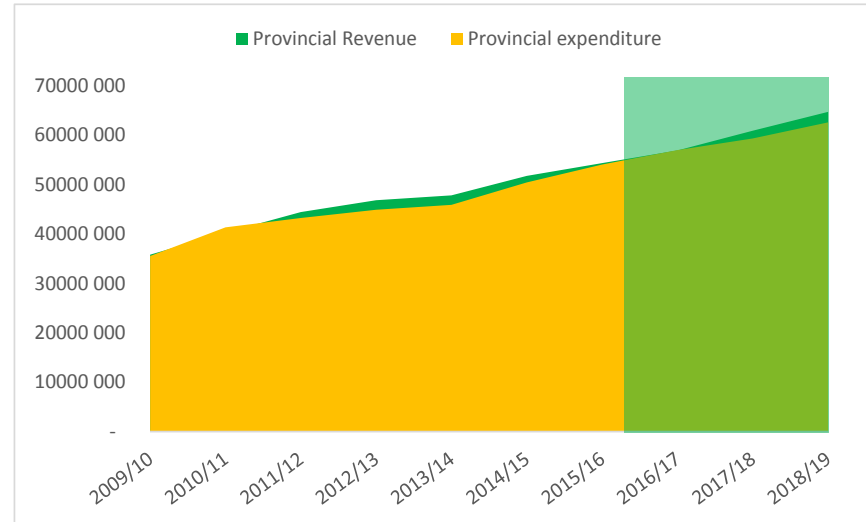
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Consolidated government	153.8	118.2	113.5	135.9	136.0	137.8	157.9	139.0	135.3	123.6
	6.3%	4.3%	3.8%	4.1%	3.8%	3.6%	3.9%	3.2%	2.8%	2.4%
Local authorities	10.5	8.9	6.2	7.3	7.8	9.0	9.5	9.8	10.0	10.9
	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
General government borrowing <i>Percentage of GDP</i>										
State-owned companies	76.3	44.5	42.5	58.3	56.7	78.7	87.2	72.9	83.5	67.1
	3.1%	1.6%	1.4%	1.8%	1.6%	2.0%	2.1%	1.7%	1.8%	1.3%
Borrowing requirement	240.7	171.5	162.2	201.5	200.4	225.6	254.6	221.6	228.8	201.6
	9.8%	6.3%	5.5%	6.1%	5.6%	5.9%	6.2%	5.1%	4.8%	3.9%

PROVINCIAL FISCAL POLICY FRAMEWORK

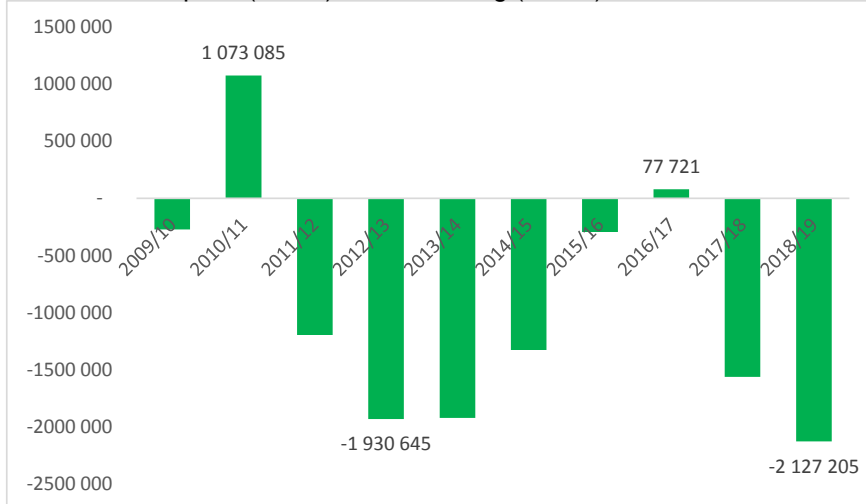
The provincial fiscal policy is one of the most important tools sub national government has in redressing the past injustices and promoting economic growth and development. It is therefore imperative that there be a very strong correlation between the provincial macro-economic policy, namely the Limpopo Development Plan (LDP) and the provincial fiscal policy (Budget).

Provincial expenditure and receipts have increased over the years, recording 6.8 and 6.6 percent respectively. Although provincial expenditure is relentlessly less than the receipts with few exceptions. In 2010/11 the province overspent by R 1.073 billion which instigated the implementation of Section 100 (1a) of the Constitution to abate the unsustainable fiscal stance of the province. The province is projecting a negative budget balance in 2016/17, although in outer years is projecting a positive budget balance.

Provincial revenue and expenditure (R 000)



Provincial surplus/ (deficit) after financing (R 000)



CONCLUSION AND POLICY RECOMMENDATIONS

The provincial government has to reform the provincial economy by shifting from a raw material extracting economy to an industrialised economy with huge multiplier effects. The development of economic growth centres in the province will increase conglomeration of economies. SMMEs and Small Emerging Farmers (SEMs) needs both financial and non-financial assistance to remain profitable and preserve job cuts among the low skilled and income working group.

Both provincial administration and local authorities need to assist the national government by maintaining prudent fiscal management, this will reduce pressure on national government by committing less on net government debt. Socio-political stability and growing national debt to GDP will risk the country by decreasing its credit worthiness. Provincial fiscal policy can be used to support economic growth, job creation and improve the living standards of the citizens by prudent expenditure plans.

The province requires economic growth to be at least at 3 percent to create the much needed jobs and reducing the economic and income divide in the society. The LDP provides the policy fundamentals in taking the province' economy on a rising growth and development trajectory.

THANK YOU

Macro-Economic Analysis

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