



## **The South African economy**

### **A review of 2008 and outlook for 2009**

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It was expected that South Africa's annual growth would slow down in 2008. The global credit crisis and resulting recession did, however, put more pressure on the local economy.

Consumers fell behind on debt repayments because of high inflation and a rise in interest rates. As a result, local banks will now be stricter on lending money.

Growth will slow down even more at the beginning of 2009 but growth prospects will improve towards the end of the year. Lower interest rates mean consumers can reduce their debt by getting up to date with repayments.

### **Lower growth in 2008 was expected**

Higher prices and interest rates meant that South Africa was set for lower annual growth in 2008. The year did not start brightly as the electricity crisis and Eskom's load shedding activities disrupted businesses and led to a shutdown of the mining industry. Large industrial customers had to reduce their electricity consumption by up to 10% which meant that output also dropped. This set the scene for slower growth for the rest of the year.

### **Global credit crisis and recession affected SA economy**

Global food prices rose and oil prices peaked at about \$147 per barrel in July. In September, the collapse of a major US bank started a global credit crisis. Banks and large companies on the brink of failure had to rely on government funding. Central banks slashed lending rates to ease the credit crunch and get banks to lend to each other as well as to businesses and consumers.

The major world economies experienced a recession as consumer demand dropped and commodity prices plummeted. The global recession in the second half of the year put even more pressure on South Africa's growth prospects as the value of the JSE dropped dramatically and the rand depreciated.

### **Consumers fell behind on debt repayments**

During the boom period in South Africa, when growth was high and interest rates were low, consumers took on a lot of debt to finance their spending and banks competed to provide finance for houses and cars. When interest rates rose again and the cost of repaying debt increased, some consumers fell behind with their repayments. Banks have seen a steady increase in the number of loans which are at least two months behind in repayments.

## **Local banks will cut back on lending money**

Although local banks haven't had the same problems as those in developed economies, they have tightened their approach to lending money. With the deterioration of the economic outlook at home and globally, banks will not be giving 100% home loans in the foreseeable future. Depending on your standing with the bank, you will only get a loan of up to 70 – 80% (Financial Mail, January 16 2009, p22) of the purchase price of a home. This means that you will have to make up the 30% with a cash deposit.

## **Local interest rate cut will help consumers**

Towards the end of last year, oil prices reached below \$40 per barrel, which led to lower fuel prices and a drop in global food inflation. Since these two factors had been major drivers of our domestic inflation, our inflation started to decline and the South African Reserve Bank (SARB) decided to cut interest rates by 50 basis points in December. This will ease the pressure on consumers' incomes as the repayment of personal debt will be cheaper.

## **Growth will slow down even more at the beginning of 2009**

Growth prospects for 2009 are worse than for 2008. Growth is expected to slide from about 3% to around 1.5% this year as people and businesses consume and invest less. The other concern is that the global recession will make it more difficult for South Africa to finance its current account deficit because capital inflows will be harder to come by.

*A country's current account deficit is the difference between a country's exports of goods and services and its imports of goods and services. This excludes all financial transfers and investments. A country's current account is in deficit if imports more than it exports.*

## **Prospects improve towards the end of 2009**

Imports will decrease as people and businesses spend less. This will take pressure off the country's deficit. A decrease in global demand means that exports will remain under pressure but prospects will improve towards the end of the year and into 2010.

The inflation outlook is expected to continue improving. The South Africa Reserve Bank expects inflation to average 6.2 % in 2009 and 5.3 % in 2010. As a result, the Bank will be able to cut interest rates further in future.

## **Consumers can reduce debt**

Now that prices and interest rates are lower, consumers would be well advised to get up to date with their payments and reduce their debt.

The need for risk cover and investment has not changed so it's wise to keep to a long-term investment strategy and not lapse any policies.