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WEDNESDAY, 15 OCTOBER 2014

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The House met at 14:15

The Madam Speaker took the Chair and read the prayer.

ANNOUNCEMENTS, TABLING AND COMMITTEE REPORTS - see p

The SPEAKER: I call upon the Minister to table the Provincial Economic Review and Outlook and Municipal Economic Review and Outlook, the hon, the Minister Ivan Meyer.

### **PROVINCIAL ECONOMIC REVIEW AND OUTLOOK**

The MINISTER OF FINANCE: Thank you, hon Madam Speaker; hon Madam Premier and hon Mr Deputy Speaker; hon members of the Provincial Cabinet; hon member, the Leader of the Official Opposition, hon members of the Legislature; senior officials of the Provincial Treasury, employees of the Western Cape and citizens of our province.

Madam Speaker, the overarching theme of the 2014 Provincial Economic Review and Outlook and the 2014 Municipal Economic Review and Outlook is the need for inclusive growth. This is because inclusive growth,

sustainable economic growth is crucial if we want to create jobs and break the cycle of poverty in this province. This is a top priority of the Western Cape Government.

However, since the exiting of the global recession in 2008 and 2009, global economic growth has remained under significant pressure. Advanced economies were under strain as a result of weak domestic demand as well as by fiscal constraints. Meanwhile emerging and developing economies, led by China, kept the global economic boat afloat. However, the roles have changed somewhat over the past few quarters with demand in emerging and developing economies starting to slow down, while growth in the advanced economies is stabilising.

Madam Speaker, let me now turn to the global economic growth. The global economic growth moderated for the third consecutive year to 3.2% in 2013 from 3.5% in 2012. Advanced economies are showing signs of more robust growth, while the downward pressure on growth in emerging and developing economies intensifies.

Madam Speaker at the time of the PERO, when it was finalised in July 2014, the International Monetary Fund (IMF), was forecasting global output to rise by 3.4% in 2014 and by 4.0% in 2015. However, Madam Speaker, since this it has been downgraded to 3.3% in 2014 and to 3.8% in 2015.

Let me now turn to the South African economic growth. The IMF has also

downgraded South Africa's GDP growth projections from 1.7% in July 2014 to 1% (1.4%?) in October 2014, while advanced economy growth is expected at 1.8% and emerging economies at 4.6% in 2014.

Madame Speaker, it is clear from these forecasts that the South African economic growth is expected to lag behind other emerging economies. This is largely due to the country being plagued by a host of domestic issues, including labour market inflexibility; labour unrest; infrastructure bottlenecks and a persisting current account deficit, which have weighed heavily on economic growth. Many of these problems are largely as result of a failure of leadership in South Africa to implement the right policies, many of which are proposed in the National Development Plan, to get our economy growing again. Growth of only 1.9% was recorded in 2013... [Interjections.]

Mr Q R DYANTYI: You are just [Inaudible.]

The SPEAKER: Order.

The MINISTER OF FINANCE: ...falling from 2.6% in 2012. Most of the decline in economic activity during the first quarter of 2014 [Interjection.] ...can be attributed to a 24.7% and 4.4% quarter-on-quarter fall in mining and manufacturing production during the quarters respectively. Madam Speaker, the fall in the mining activity was largely due to labour unrest in the platinum sector, which started towards the end of January 2014.

As indicated by the IMF, the situation will not be improved in the near future. Madam Speaker, this is really a serious issue. The OECD Countries have downgraded South Africa's growth forecast from 2.7% to 1.7%

Households and growth in real consumer spending is expected to remain under pressure for the remainder of 2014 as a rising inflation, higher interest rate and subdued employment and credit growth weigh on household income.

General emerging market sentiment has, in recent quarters, had a noticeable impact on the South African economy. The vulnerability of the rand, our currency remains a risk. It is clear that if we want to attract investment into South Africa we will need to introduce policies that will restore confidence in our South African economy.

Madam Speaker, let me now turn to the Western Cape economic growth.

Mr Q R DYANTYI: That is it. Please come now [Inaudible.] [Interjection.]

The MINISTER OF FINANCE: I am coming to you sir. Madam Speaker, the decline in the national economic growth has also negatively affected the growth in the Western Cape.

After accelerating to an annual rate of 3.9% in 2011, economic growth in the province slowed down to 2.9% in 2012. However, this was still 0.3% higher than the national growth.

Madam Speaker, the better performance by the Western Cape economy is a result of both the structure and the source of economic activity in this province. The tertiary sector which makes up a greater proportion of the Western Cape economy is also the sector which enabled the province to outperform the rest of the country.

However, the fact that the Western Cape economy is also more services oriented, means that it is more likely to be negatively affected by a slowdown in consumer spending than the rest of the country. On the other hand, however, the Western Cape is also less exposed to the mining sector and the lack of mining activity, which would likely boost provincial growth relative to the rest of South Africa.

The risk to the Western Cape economy posed by the outlook for the global growth is mixed. Although positive for the Western Cape in that our major export partners are growing, this outlook too is subject to a downside risk. The weaker than expected growth in the United States and the Euro area and in Sub-Saharan Africa will dampen demand for Western Cape exports. On the other hand, the reverse will provide a boost to our exports. Exports could be further supported, should the rand exchange rate depreciate by more than expected. The faster growth in advanced economies should boost Western Cape exports.

Madam Speaker, let me now turn to the development of the Western Cape

economic sectors. Madam Speaker, the Western Cape economy has developed from its agricultural beginnings with a strong complement of food and beverage producers, to a higher value-added manufacturing activity and a range of service activities, including tourism. The contemporary regional economy is however, still characterised by a strong agro-processing sector.

Construction was the fastest growing sector between 2000 and 2013. Most of this growth was centred in the period 2004 to 2007, which was characterised by a residential and non-residential boom, a building boom and strong private fixed investment linked to the robust economic growth conditions and an ambitious public sector capital spending drive.

The second fastest growing broad sector was finance, insurance, real estate and business services. The business services sector, the largest subsector, contributed 22.2% of the GDP, the Gross Domestic Product Region, in 2013. Madam Speaker, despite the slowdown in recent years, the sector made the biggest contribution to job creation over the period 2000 to 2013.

The transport, storage and communication sector expansion was driven mostly by strong growth in the communication subsector, driven by the incremental liberalisation of the telecommunications market, new product developments in mobile technology applications.

The wide diversity of products underpinned by agriculture, forestry and fishing sector remains the key industries in the Western Cape economy,

particularly in the rural areas. The Western Cape agricultural sector accounts for 23.4% of the national agricultural output. Given that the province's contribution to the national GDP is estimated at 15% in 2013, the Western Cape has a clear comparative advantage in agriculture, which is also revealed in agricultural exports.

The economic contribution of primary agriculture is supported by various value chains as well as forward and backward linkages within the manufacturing and services sector, the latter importantly through tourism. Increasing farmer participation in the food value chain via beneficiation of agricultural produce could stimulate inclusive growth and employment creation.

Madam Speaker, going forward, the agricultural sector is likely to remain a pillar in the Western Cape economy, especially in the rural areas. However, this sector is subject to key risks which could not dampen the short-term growth prospects, but also undermine the longer-term potential of the sector. These risks include also a lack of clean water sources, pressure on profitability, land reform policies as well as crime.

Madam Speaker, the National Development Plan has set a target of 20% transfer of agricultural land to previously disadvantaged South Africans by 2030. A more collaborative and concerted effort is required to fundamentally change the agricultural landscape to reflect a modern and inclusive sector. The Western Cape is willing and able to play its part. The National

Government must however assist by removing red-tape, which poses a real constraint to the future of growth of this very important sector of the Western Cape economy.

Madam Speaker, tourist spending has a strong, positive and sustainable impact on employment in many sectors and districts of the Western Cape economy. Moreover, the provincial catering and accommodation sector, which is linked to tourism, is expected to outperform relative to the Western Cape economy overall. Expressing tourist spending as part of the total spending, the so-called tourism product ratio reveals the reach of tourism into other sectors. It depicts why tourism is such an important sector through which we can achieve inclusive economic growth. For example, 37% of spending in restaurants and 31% of spending on sports and recreation are linked to tourism. Tourism is also linked to 'less obvious' sectors such as 16% of all retail automotive fuel sales and 10% of all clothing retail sales.

A positive outlook for tourism demands that attention be given to the general risk to income levels of consumers, both locally and abroad. However, Madam Speaker, consumers also need the ability and the desire to spend in the Western Cape, and the recently introduced changes to the tourist visa regulations could detract from the province's and the rest of South Africa's attractiveness.

These proposed visa regulations will have disastrous consequences for the whole economy of South Africa. Local businesses are already dealing with the fallout. This threat is real. This is a threat to businesses, but also to the



film and the leisure industry because the result from these regulations does not augur well for the Western Cape and we once again will call on the National Government through our IGR-structures to reconsider its stance on this issue.

Madam Speaker, all economic activity, particularly agriculture and tourism... [Interjection.] ...are subject to the increasing pressure exerted by a growing population and economic production on scarce resources and the environment. This represents the realm of the green economy, which poses a constraint on conventional production processes, but also presents a number of exciting development opportunities.

Madam Speaker, employment in South Africa peaked at 14.8 million in the late 2008, just prior to the economy going into recession. The impact on the local real economy was initially relatively benign, but the impact on the labour market was dramatic: close to one million people's jobs, one million jobs were lost during the first nine months of 2009 and the total employment eventually reached as low as 13.7 million in the third quarter in 2010 in South Africa.

The Western Cape's population has grown relatively rapidly over the past five years. As a result, there are now 4.2 million potential workers resident in the Western Cape. The Western Cape's population is estimated at approximately 6.1 million in the 2014 mid-year population estimates, representing roughly, Madam Speaker, 11.3% of the national population.

Working-age cohorts account for 67.3% of the provincial population, while those aged between (at least?) 65 years represent 6.2%.

Part of the reason for the growing provincial population is migration, specifically net in-migration from other provinces. Stats South Africa estimated that the Western Cape has received just over 300 000 more in-migrants than the number of out-migrants who left the province between 2006 and 2011.

In South Africa, Madam Speaker, the narrow unemployment rate is estimated at 25.4% in the second quarter - that is the end of September this year; including the non-searching unemployed, it raises the unemployment rate to 33.4%, while in the Western Cape the unemployment rate is estimated at 23.5% and 24.4% using the narrow and broad definitions respectively.

While the Western Cape has a lower unemployment rate than the rest of the country, it is concerning, Madam Speaker, and for this House to note that 50.4% of those between the ages of 15 and 24 years old in this provincial labour force are unemployed, highlighting the persistent youth unemployment problem, and therefore I am particularly happy to see that this government has through Minister Schäfer, Minister Mbombo, Minister Fritz and Minister Plato are now giving direct attention to this particular problem.  
[Interjection.]

An HON MEMBER: But there are still no jobs; no work.

The MINISTER OF FINANCE: Population Growth: the growing population of the Western Cape has increased service delivery pressures on local municipalities and the provincial government, despite having limited resources.

The provincial population is predicted to continue to grow by 10.5% between 2014 and 2024 over the next ten years - a total increase of just over 630 000 people. At district level the pattern of growth is also not even, ranging from a declining population in Oudtshoorn to an increase of 18.6% in Bitou. The City of Cape Town is projected to increase its population by 9.8% over the same period.

However Madam Speaker, despite this pressure, the province continues to have lower inequality levels than the rest of the country.

## **MUNICIPAL ECONOMIC REVIEW AND OUTLOOK**

Madam Speaker, let me now turn to the Municipal Economic Review and Outlook. Madam Speaker I will now turn my attention to municipalities and their respective local economies. The recovery of the local economies from the 2008 and 2009 recessions is mixed, with some regions struggling while others show better signs of recovery. Economic growth in the Western Cape regional economies is expected to range between 2.1 and 2.9% in 2014, with Eden and the Overberg districts continuing to grow the fastest in this

province.

Although Eden's real GDP per region declined to 0.3% in 2009 from 5.6% in 2008 it recovered to 3.4% in 2010. Growth accelerated, Madam Speaker to 5.1% in that region 2011 before decreasing to 2.5% in 2013. The Eden economy is expected to record a growth rate of 2.9% this year.

The Overberg economy experienced a sharp drop from 7.6% during the recession period of 2008 and 2009 to 0.8% in 2009. It moved to 5.2% in 2011, a remarkable recovery, but decreased to 2.1% last year. It is expected to grow this year by 2.9% in 2014.

Madam Speaker, the Cape Winelands District (CWD) was severely affected by the global recession. The region began to recover in 2010, with real GDP regional growth coming in at 3.6% in 2011, but decreased to 1.9% last year and it is expected to average 2.4% in this current year.

Madam Speaker, let me come to the Cape Metro. As you know this constitutes two thirds of this province. The Cape Metro showed signs of recovery in 2010/2011, but growth moved to 1.8% last year and it is expected to have averaged at 2.2% in 2014.

Madam Speaker, let me now turn to the West Coast District (WCD). It showed strong signs of recovery in 2011 from the 2009 recession, registering a 4.2% real GDP growth. However, growth declined to 2.1% last year and it

is expected to average at 2.1% again in 2014.

Madam Speaker, let me now turn to your constituency, the Central Karoo (CKD). The economy was heavily impacted by the 2009 recession with growth stalling in 2009. The district began to show signs of recovery in 2010, growing by 2.3%. Growth accelerated to 3.9% in 2011 and thereafter moved to 1.7% last year and it is expected to average at 2.1% in 2014.

Madam Speaker, over the next five years, that is 2014 to 2019, sectors which are expected to perform better include construction, finance, business services, transportation, communication as well as manufacturing. The wholesale, retail trade and accommodation sector also has a potential to grow higher.

In the Cape Metro, construction, wholesale, retail and accommodation, transport and communication and the financial and business services sectors all grew above or equal to an average during 2000/2013. It is expected that the construction sector will be the highest sector and will be closely followed by the transport, storage, communication and the finance and business sectors.

Madam Speaker, between 2010 and 2013 employment levels in the finance and business services sector recovered to 100% or more of the pre-recession peaks in most local municipalities. Breede Valley, Laingsburg and Hessequa are all over 80% of their pre-recession employment peaks, but they have not

recovered fully.

Madam Speaker, employment recovery in the manufacturing sector between 2010 and 2013 was over 75%, close to the pre-recession peaks in most local municipalities, with the exception of Saldanha and Cederberg municipalities.

The agricultural sector is still facing challenges with regard to job losses as shown by the poor employment recovery levels, as none of the municipalities have managed to reach their pre-recession employment peak levels.

Unemployment among semi- and unskilled workers in agriculture, construction and manufacturing between 2000 and 2013 are a cause for concern. However, the services sector showed an increase in the employment of semi and unskilled workers. The finance and business services sector has recorded some gains in employment during the recovery period.

Madam Speaker, for the Cape Metro, the sustained job losses in manufacturing and construction during the economic recovery period is also a cause for concern, as these, combined with those in agriculture and in some services, exceeded the net job gains in the other services sectors, notably the business services. Madam Speaker, the Metro is faced with the provincial-wide challenge of closing the growing gap between skills-intensive labour demand associated with a sophisticated modern economy and the available labour supply.

In the Eden district, the overheating property sector in the preceding years resulted in a major construction slump in which many workers lost their jobs even during the economic recovery period. Steep job losses also continued in the agriculture and manufacturing sectors, and a skills mismatch in the labour market. The growth in the services sector overshadowed the losses in the agriculture, manufacturing and construction sectors.

Madam Speaker, in the Overberg, deep retrenchments continue to occur in different sectors of the economy. Over the years, the region has developed a vibrant financial and business services sector, which is also a key source of employment. In all municipalities, Madam Speaker, within the district, manufacturing employment remained 10 to 15% below their pre-recession peaks by the end of last year.

In the Cape Winelands District, net retrenchments in different sectors of the economy continued during the first four years of our economic recovery. One fifth of the region's workforce is employed in the agricultural sector. It is critical, Madam Speaker, that the services sector be expanded also to absorb and upskill semi and unskilled workers. The services sector added substantial semi and unskilled jobs despite its general skills intensity.

Madam Speaker, in the West Coast District, unemployment has been increasing. There is a great need to employ, retain, train and retrain and upskill workers as the agricultural, manufacturing and construction sectors have had job losses of semi and unskilled labour on a large scale, but not

fully compensated for by the net job creation in the skills-intensive services industries. Madam Speaker, in the Central Karoo region a contraction in employment over the period of 2000 and 2013 was also experienced.

Madam Speaker, the sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a de facto counter-cyclical role for the informal sector. For example, in the Cape Metro, the recession caused significant net job losses of 61 000 in the formal sectors of the regional economy while there were 59 000 net jobs created in the informal sector over the same period.

Madam Speaker, regions experiencing high economic growth are also seeing improvements in socio-economic conditions, and conversely, economies struggling to grow are not seeing improvements in socio-economic conditions.

The Cape Metro economy grew at a faster rate than the population, at 2.6% per annum, which has led to rising per capita incomes. This indicates higher average standards of living for the inhabitants of the City of Cape Town.

An HON MEMBER: Not really.

The MINISTER OF FINANCE: The Cape Metro boasts the second-fastest increase between 2001 and 2011 in per capita income compared to the other



metro's in the country. These facts come from the Stats SA and if anybody has an issue with that, they must consult Stats SA.

Mr M L FRANSMAN: What is the first one? [Interjections.]

The MINISTER OF FINANCE: The Cape Winelands district experienced rising [Interjections.]

The SPEAKER: Order, members!

The MINISTER OF FINANCE: ...living standards over the past decade due to the fact that the economy grew faster compared to the population growth, which led to higher per capita income in the region. The proportion of households that are indigent has fallen from 2011 to 2014 and the increasing Human Development Index (HDI) from 2001 to 2012 is an indication that economic growth is now being translated towards human development within the Cape Winelands district. However, despite substantial improvements, poverty levels are still relatively high and we still need to address many issues of poverty and underdevelopment in this province. [Interjection.]

Mr M N PAULSEN: It would not be by this government!

The MINISTER OF FINANCE: Madam Speaker, in Eden the economy grew faster than the rate of the population, which has led to an increase in per capita incomes in the region.

Mr M N PAULSEN: The government is not [Inaudible.]

The MINISTER OF FINANCE: You do not understand this stuff! [Laughter.] This indicates higher average standards of living for the inhabitants of the region. [Interjection.]

The SPEAKER: Order! Minister, order. Hon member Mr Paulsen!

Mr M N PAULSEN: Madam Speaker?

The SPEAKER: The Minister is speaking, will you allow him?

Mr M N PAULSEN: Madam Speaker, I would not respond to him unless he [Inaudible.]

The SPEAKER: Hon member Mr Paulsen, interjection is allowed but not a running commentary please, thank you. Minister.

The MINISTER OF FINANCE: Thank you Madam Speaker. All municipalities shared in this trend, except Hessequa. [Interjection.] Nonetheless, the Eden District has the highest levels of youth unemployment, 29.3%, amongst the districts within the province. There is a lot of work to do in that particular area.

The economy grew at a faster rate than the population within the Overberg District which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region, which is true for all of the Overberg municipalities. The increasing Human Development Index HDI between 2001 and 2012 is an indication that the rapid economic growth is being translated towards human development within the Overberg district. Nonetheless, the proportion of households that are living in poverty has fallen only slightly between 2001 and 2010.

Given a relatively low population growth rate of 1.3% per annum during the period of 2001 and 2011, per capita incomes in the Central Karoo district have risen as the economy grew at a faster rate of 4.0%. This indicates higher average standards of living for the inhabitants of the region.

In the West Coast District per capita income only increased in Saldanha Bay Municipality, while it declined for all the other municipalities in the region between 2001 and 2011.

Madam Speaker, what are the implications of the MERO and the PERO for policy, for planning, for budgeting in the Western Cape?

Madam Speaker, you would have noted that the hon Premier during her State of the Province Address committed this government to evidence-based practice and so, Madam Speaker, the above has indicating that the following have implications for planning, policy and budgeting.

Due to the modest growth outlook, the economic review and outlook over the next few years does not show significant economic growth. The South African and Western Cape economies are consistently showing signs of a ‘middle income trap’ which are low investment, slow growth in the secondary industries, limited industrial diversification and poor labour market conditions.

Madam Speaker, we must therefore collectively find new markets to increase and maintain export growth which could focus on the areas in which we have a comparative advantage, such as agro-processing and tourism with a focus on value chains as a strategic option. However, a holistic approach should be taken and the manufacturing sector as well as the tertiary sector remains key.

Efforts to improve well-being and social equity through economic development, growth and job creation are threatened by inadequate responses to environmental risks and ecological scarcities. Inclusive growth cannot be sustainable if green economy issues are not comprehensively considered.

Therefore I appreciate the work that the Premier has done in this particular space in committing this government to championing the Green Economy and mainstreaming it in every single department across this Western Cape and in every single municipality. Province ramping up domestic demand is also important which implies increasing employment and decreasing unemployment.

Apart from the need to accelerate employment growth, key challenges for policymakers are to ensure that employment gains going forward are more sustainable and are more aligned to the profile of our available human resources, and more resilient in the face of economic downturns. This will be key to ensuring that the benefits of economic growth are truly shared by all.

The challenge is to move to a growth based on high productivity and innovation. This requires investment in infrastructure and education and links to one of the biggest constraints which is the issue of lack of appropriate skills.

In the context of the Western Cape, mutually reinforcing synergies can be achieved by a combination of space-neutral policies - policies that include equal education, equal public health and access to markets and work - aimed at the development of human capital, education and health, social infrastructure and access to markets with place-based policies aimed at local institutions building and the utilisation of local knowledge and initiative.

Madam Speaker, in conclusion, it is clear that South Africa and the Western Cape economy are facing tough times. It is also clear that while the Western Cape is doing better than the rest of the country it can even do even better if we were not hamstrung by some of the policies. Three examples of these policies are relating to visas - real stuff. [Interjection.] Start travelling, and you see what is happening... [Interjection.]

An HON MEMBER: He is not here [Inaudible.]

The MINISTER OF FINANCE: ...and policing and the development of our harbours. [Interjection.]

Mr M N PAULSEN: You cannot even say it [Inaudible.]

The MINISTER OF FINANCE: The Western Cape is willing and able to address these challenges head-on and reiterates its commitment to implementing the National Development Plan.

The Western Cape will continue to find innovative ways of creating sustainable jobs for the people of the Western Cape as this is the only way in which we can meaningfully address the issues of poverty and restore the dignity of the people and the citizens of the Western Cape.

Our response: a carefully crafted plan of action, several new interventions will form the basis of our 2014 Medium Term Budget Policy Statement which I will announce in this House in November this year.

Madam Speaker, I now table the 2014 Provincial Economic Review and Outlook and the 2014 Municipal Economic Review and Outlook in this legislature for further discussion.

The SPEAKER: Thank you, Minister Meyer. [Applause.]

Mr Q R DYANTYI: How do you address the issue of growth [Inaudible.]

The SPEAKER: Hon member Mr Dyantyi!

Mr Q R DYANTYI: Tell us about that! [Interjection.] He missed it.

An HON MEMBER: You must listen! [Interjection.]

The SPEAKER: Order hon members! [Interjections.]

An HON MEMBER: You guys miss Trevor Manuel.

The SPEAKER: Hon member Mr Dyantyi! The Provincial Economic Review and Outlook and the Municipal Economic Review and Outlook will now be referred to the relevant committees for consideration and deliberation. Before we adjourn I would like to remind members that the Budget Committee meeting would commence at 15:00 and that a debriefing and finalisation of the NCOP Visit Week Report would take place after the adjournment of the Budget Committee meeting in the Chamber.

That concludes the business for the day. The House is adjourned.

The House adjourned at 14:49.