

The KZN Top Business Awards

Address by

**Honourable Ms Belinda Scott, MEC of Finance in the Province of
KwaZulu-Natal (28 July 2016)**

(Protocol to be updated on-site)

Distinguished guests

Members of the Media

Fellow citizens

1. Introduction

First and foremost let me apologise on behalf of the Premier of the Province of KwaZulu-Natal Willie Mchunu. He was looking forward to this dinner but he could not make it due to other unforeseen commitments. The Premier asked me to convey his appreciation to all of you for the support since his appointment as the Premier of the Province of KwaZulu-Natal.

He further requested me to reiterate his commitment towards ensuring that you have access to all of us as members of the new executive council. Our message this evening is that let's continue to work together, as government and business, in order to create a stronger KZN economically and socially.

Ladies and gentlemen, it is indeed a great honour and privilege to address The Top Business Awards function powered by eLAN Property Group. As one of the leading companies in the hospitality, real estate and the property development industries, eLAN Property Group has unequivocally contributed immensely to the economy of the country, thereby contributing to job creation and poverty alleviation, particularly in KwaZulu-Natal (KZN). It is, therefore, not by surprise that the group has been consistently raising the

standards of property development on the African continent over the last 20 years since its establishment.

2. National Economic Outlook

Economic Growth and Inflation

Programme director, it must be noted that as indicated by the International Monetary Fund (IMF), World Bank and the Economic Co-operation and Development (OECD), the global economic outlook still remains sluggish. The revised global economic growth rate by the IMF is now expected at 3.2 per cent in 2016. The global economic outlook has been influenced to a large extent by the outcome of the UK referendum, which caught financial markets by surprise.

Last week, the subdued global and economic performance has compelled the South African Reserve Bank to project the national economy to grow by zero per cent this year, down from 0.6 per cent projected in May this year.

As it was correctly pointed out last week, by the Governor of the South African Reserve Bank (SARB), Mr Lesetja Kganyago, the domestic economic growth outlook remains extremely challenging, particularly following the contraction in GDP in the first quarter of this year.

Following both the global and national trends, our provincial economic performance has been adversely affected, thereby contracting by 0.4 per cent in the first quarter of this year. Data from Stats SA indicate that this poor provincial economic performance was to a large extent influenced by agriculture, forestry and fishing industries; mining and quarrying as well as transport.

The SARB composite business cycle indicator, as well as both low business and consumer confidence also followed a moderate downward trend in the first quarter of 2016, confirming the subdued economic outlook. It, therefore, goes without saying that this sluggish economic performance is not boding well with unemployment rate which is currently estimated at 26.7 per cent and 23.2% at national and provincial respectively.

Social Services

As most of you are aware, since the advent of democracy in 1994, South Africa has made great strides in reducing absolute poverty by rolling out social grants for pensioners, the disabled and children. Access to education, housing, water, electricity and other services has been broadened to include the majority previously disadvantaged population.

As a result, the quality of life of South Africans, in general, has increased substantially. A sound macroeconomic framework with a stable fiscal position, inflation targeting, a floating exchange rate and largely unhindered international capital flows underpinned this progress, and has earned South Africa the confidence of financial markets.

Sovereign Credit Rating Agencies

It is not by coincidence that on 8 July 2016, Moody's released a statement on how Brexit could affect Sub-Saharan Africa. The United Kingdom's (UK's) majority referendum vote to leave the European Union triggered some global financial market volatility at a time when economies in Sub-Saharan Africa were already under pressure from the commodity price shock and slowing growth in China.

The report reflects that there is limited impact on the region's economy, but South Africa is more exposed. Moody's, which currently rates South Africa's sovereign at two notches above investment grade with a negative outlook believes that South Africa is the most

exposed SSA sovereign, although both the Rand and the country's stock exchange have since almost recovered to pre-Brexit levels.

The Rand's initial depreciation relative to the dollar was greater than that of most other emerging market currencies, reflecting its close ties with the UK and reliance on foreign flows to finance its current account deficit. South Africa's current account deficit leaves it vulnerable to short-term capital outflows amid changes in investors' risk perceptions and appetite.

Honoured guests, Fitch Ratings' downgrade of South Africa's local-currency debt rating, on Monday evening is a timely reminder of the risks of a downgrade that lie ahead. Fitch has aligned South Africa's long-term local currency rating to the long-term foreign currency rating at 'BBB-' with a stable outlook. In effect, it dropped it one level to bring it into line with the nation's foreign-currency rating.

As indicated by National Treasury on Tuesday, *"We must persist with, and redouble our efforts to work together – government, business and labour – to improve our growth prospects and to create more business and work opportunities."*

3. Investing in South Africa

As Government, our policies and regulations have long favoured and encouraged foreign and private investment, particularly infrastructure. This is a priority investment sector with investment friendly legislation, incentives and legal protection for foreign investment. South Africa is, therefore, one of the most sophisticated emerging markets globally.

The unique combination of a highly developed first world economic infrastructure and a huge emergent market economy has given rise to a strong entrepreneurial and dynamic investment environment. As a country, we have achieved a level of macro-economic stability. This create opportunities for real increases in expenditure and social services

and reduces the cost and risk for all investors, so laying the foundation for increased investment and economic growth.

This evidence is also confirmed by the 2015 World Bank's "Doing Business Report" which ranks South Africa number 43 out of 189 countries in terms of ease of doing business. Our strengths as a country lie in our outstanding performance in the efficacy of corporate boards, protection of minority shareholders' interests, availability of financial services, financing through the local equity market, and the soundness of our banks.

These facts are further cemented by the 2015 World Economic Forum's Competitive Report which unequivocally declared South Africa as the best African country in terms of maintaining auditing and reporting standards, as well as the regulation of securities exchanges in Africa for the year 2014/15. The report further rates South Africa among the top in the world in terms of investor protection and good fiscal governance. Ladies and gentlemen, all these achievements point towards one conclusion: that South Africa is the best country in Africa to invest in.

4. Investing in KZN

KZN is strategically positioned by being home to two of Africa's busiest and largest ports, namely Durban and Richards Bay. This enables our province to enjoy the strategic and competitive advantage of being a global gateway for trade into Southern Africa and to the world. Its strategic location and highly developed industrial sector ensure a competitive edge for both local and foreign investors and unique advantages for local exports.

The province also boasts world class road, rail and air network, respectively. A range of prime commercial and green field industrial sites are readily available in close proximity to the ports, with easy access to all major trade transportation routes. In addition, the

King Shaka International Airport and Dube Trade Port, further enhance KwaZulu-Natal's access to international markets.

The advent of a world class freight and passenger logistics platform, Dube Trade Port, which is home to King Shaka International Airport, has created a highly competitive business operating environment capable of attracting a diverse range of investors, operators, users and tenants. This development will further stimulate exports and other airport related activities. The Inkosi Albert Luthuli ICC Complex continues hosting major national and international conferences.

In an effort to remove unnecessary bureaucracy and speed-up processes in order to fast track investments in KZN, we the Government of this province have established Trade & Investment KwaZulu-Natal Agency (TIK). You, as business people are therefore encouraged to communicate with this agency for both national and provincial policy environments on investment, particularly in KZN. TIK further provides information on the incentives available from government and assist you in applying for those incentives which you may be eligible for.

Construction and Real Estate

Economic growth in KZN is coupled with prioritisation of infrastructure development by both the national and provincial government. This has resulted in major upgrade projects occurring in city centres around KZN. The construction sector is experiencing sustained growth and is well positioned to respond to increased demand for real estate.

Housing, office, shopping mall and resort development projects are on the increase, creating fertile investment opportunities for mainstream construction and downstream supply services.

Due to the growth in this industry, exciting opportunities exist for the suppliers of cement, concrete, doors, window frames, furniture and roofing, as well as services in civil engineering and construction project management. The construction, real estate and financial industries collectively contribute a total estimation of about 17 per cent to the provincial GDP in real terms, with high potential for growth.

3. Public Spending

As outlined by the National Minister of Finance, Pravin Gordhan, in his regular engagements with business people, the country's economic growth performance needs to be improved in a sustainable manner. Hence, the resolution of the energy challenge has been made an immediate priority. However, the maintenance of a prudent fiscal position remains one of government's top priorities.

It is within this perspective that as government, we remain committed to adhering to fiscal consolidation as outlined in both the tabling of the national and KZN budgets in February and March this year respectively. Ladies and gentlemen, it goes without saying that meeting public spending needs for infrastructure and the social safety net require a high degree of public sector efficiency, prioritisation of spending and a strong revenue base.

Housing

One of the challenges affecting the country is the reality that human settlement structures for our people, *en masse*, are too remote from economic centres and severe infrastructure bottlenecks prevent economic activity from delivering the benefits of globalisation to all. This is despite the fact that between 1994 and 2014, the South African Government has delivered more than 3.7 million houses and services sites, allowing approximately 12.5 million people access to accommodation and a fixed asset.

Since 1994, the national Department of Human Settlements has spent R125 billion (at 2010 prices) on housing and human settlement development, while R16 billion has been spent by other Government agencies on other infrastructure projects for redeveloping human settlements. These achievements took place despite a tight fiscus, and private lending institutions are still being persuaded to lend to the poor.

Ladies and gentlemen, it must be noted that housing is not only about accommodation, the availability of land, access to credit, affordability, basic services - but it also about its impact on the economy. A study conducted by the Property Sector Charter Council in 2012, indicated that the size of the property market in the country was estimated at R4.9 trillion. Its contribution to the economy of the country was found to be about R103.7 billion and thus contributing R20.1 billion to the fiscus through various forms of tax.

Conclusion

Ladies and Gentlemen, I want to pause here and congratulate the publishers of the KZN Top Business Portfolio – Lalita, Grant and their whole team. The KZN Top Business Portfolio will continue to be an integral part of all marketing efforts of the provincial government.

This is an interactive platform we use to present to various stakeholders and consumers interesting features of KwaZulu-Natal Province. The compilation of the latest edition of the KZN Top Business Portfolio is critical given the fact that we are wrapping up this term office of Local Government.

I thank you.