The impact of the financial crisis in South Africa

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The Economic Impact

The financial crisis has taken sometimes to reach South Africa. Shielded from the financial turmoil by a relatively rigid regulatory environment, the Johannesburg All Share Index reached its peak on May 2008, driven by good performances of mining and commodity stocks. For the whole of 2007-2008 the main problem confronting the South African Reserve Bank was the control of inflationary pressures coming from raising oil and food prices.

The situation has changed radically in June-July 2008. A sudden stop of international capital flows has produced a collapse of share prices and exchange rate. The JSE stock exchange has devalued almost 20 per cent in the past three months and in the same period the Rand had depreciated 37 per cent against the US dollar. The contemporaneous collapse of commodity prices has hit particularly hard mining and commodity industry, with Anglo American losing 35 per cent of its Rand value. The effects of the crisis are rapidly spreading to the real economy, with a dramatic contraction of the mining sector particularly affected by the slowing down of OECD economies.

The international credit crunch is affecting investment plans of para-statal and private sector. The sudden difficulty and increasing cost of accessing international source of financing has slowed down infrastructure investments, especially in the energy and mining sectors, with long term negative consequences for the development of growth capacity. On the other hand government finances and international reserves are very healthy and are providing a buffer stock against the most extreme effect of the crises.

Impact of the Economic and Political Debate

The financial crisis is producing a change of tone in the economic and political debate. The prospect of a slowing down of economic growth for the next few years has reinforced calls for a move towards a more expansionary economic policy framework. Consider, for example, the last paragraph of the “Statements of the Alliance Economic Summit” released 19 October by the ruling party (ANC) and its allies that reads as follows:

‘Macroeconomic policy needs to support economic development and employment creation. Interest rate policy, while continuing to be directed at containing inflation should also be sensitive to its impact on the productive economy and employment. The priority [...] is to create decent jobs and combat poverty and unemployment.

It was agreed that the systemic crisis in the global economy could have serious short-term repercussions for South Africa but could ultimately mark a watershed in the world balance of forces, and close the chapter of the ‘Washington Consensus’.’

In particular there is increasing pressure to abandon inflation targeting, to be substituted with a more eclectic monetary policy. At the moment both the National Treasury and the Central Bank have enough political capital to resist the call. The situation might change if economic conditions worsen, especially on the employment front.

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