



## Transcript of podcast with Ana Lucia Coronel: “South Africa: Restoring Confidence to Oil the Wheels for Growth”

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July 31, 2018

Hello, I am Bruce Edwards, and welcome to this podcast produced by the International Monetary Fund. In this program: South Africa sets out to restore confidence in its economy and institutions. Ana Lucia Coronel heads the team of IMF economists who produced the country’s latest economic review which credits the new political leadership for taking some bold steps.

**MS. CORONEL [soundbite]:** *The Boards and the management of some key state-owned enterprises have been changed, with the objective of replacing corrupt officials with people who have credibility.*

**MR. EDWARDS:** It has been almost 25 years since the end of apartheid, the system of institutionalized racial segregation that left most of the population with limited access to basic services. The post-apartheid years saw remarkable progress in terms of poverty reduction, access to education and healthcare, and reducing unemployment. But some of those early achievements have unwound recently amid slow growth and political uncertainty.

The IMF’s latest assessment of South Africa’s economy projects real GDP growth will stay slightly below two percent in the medium term, not enough to increase living standards or make a dent in unemployment. Ana Lucia Coronel heads the IMF team for South Africa and oversaw the writing of the [report](#).

So, confidence seems to be an issue in South Africa; the word confidence is found throughout this report. Why is there such a lack of confidence in so many sectors, and what has the impact of that been on its economy?

**MS. CORONEL:** Right. The word confidence is very important for economic analysis because it refers to the variety of beliefs that the economic agents have about the environment that is surrounding them. So, consumer confidence refers to households’ expectations of how their income is going to be, whether they are going to have a job. Investors’ confidence refers to their beliefs of whether their profits are going to be higher or their assets are going to gain value. And, this all depends on what policies the government is following. That is why confidence is important, and why we focus on confidence in the report.

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In the case of South Africa, confidence has been quite weak recently, and that has been in part related to the fact that governance is not at its best. There has been corruption in South Africa and that has had an impact on confidence of the population.

**MR. EDWARDS:** Do you see now that there is the political will to address some of these underling issues? As you mentioned, there are corruption and transparency.

**MS. CORONEL:** Yes, corruption is a big problem because what happens there is that investors and consumers delay their decisions to invest. They postpone them, and that has an impact on investment and on growth, and in turn that has an impact on consumers who are not able to spend, therefore, the economy doesn't grow.

I think the new government is aware that this is happening in the economy, so we believe that the political change is a real turnaround point because the new president, President Ramaphosa, has publicly stated that he wants to combat corruption and to increase transparency and has made that part of his economic strategy. So, we have seen that some bold steps have already been taken. In particular, the Boards and the management of some key state-owned enterprises have been changed, with the objective of replacing corrupt officials with people who have credibility in the country, and we think that is a good step.

Also, in the tax revenue service there has been a whole revamping with the idea of collecting more taxes that were in the past lost to corruption. And, we understand that they are also prosecuting some public officials who have been involved in illegal practices. Given that South Africa has good laws and good institutions, the idea is only to adhere to these laws and good institutions, so it shouldn't be that hard to combat this problem of weak governance in South Africa.

**MR. EDWARDS:** The report describes South Africa as being one of the world's most unequal societies despite, as you mentioned, its relatively good institutions and infrastructure as compared to other countries in the region. Why this increasing disparity between the haves and the have nots—the rich and the poor—and where do they need to invest to change that trend?

**MS. CORONEL:** Yes. In fact, South Africa is one of the most unequal societies in the world and to some extent this reflects the legacies of apartheid which still weigh on the economy. So, black South Africans are by far poorer than white South Africans still. Also, there is a disparity between women and men, so the pay gap between women and men is about 30 percent, which is quite high.

Also, where people live counts a lot to knowing how much access they will have to an education and to a job. It's a complex issue, and inequality is related to a lack of jobs, so there is a need for reforms in the economy to be able to create jobs. These reforms are related to facilitating competition so that more industries come and invest in the country. Also, having more flexible labor rules and having a better business environment. But, what

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is happening in South Africa is that companies that generate jobs find it difficult to find workers, and workers who don't have jobs find it difficult to find a job because of the skill mismatches that exist in the country. So, education becomes a key element to be able to fight unemployment.

**MR. EDWARDS:** The report does mention that the government has increased over the years some of its spending on programs like education, but with little to show for it. The report essentially says that the quality of services, especially in education, is one of the lowest in the region. Why is it that this increased spending has not paid off?

**MS. CORONEL:** Yes. Government spending did not pay off in some areas because simply the funds were not spent efficiently. So, in the example of education that you are mentioning, there have been significant increases in teachers' salaries and benefits, but the problem is that these increases in teachers' salaries and benefits have been related to the power of the trade unions and not to the teachers' performance. So, a sizable part of teachers now in South Africa are not well prepared to be teachers. That is a problem in terms of the quality of education.

The other problem is that funds are distributed unevenly, so public schools in urban areas receive much more funds than public schools in rural areas, and that's a problem. And, even in low-income sectors of the country where students don't pay a tuition, they still have to pay large amounts of money for transportation. That has led to some student dropping out of school. So, as a result of that and despite a lot of spending, South Africa has been ranked very poorly in international surveys for evaluation of educational attainment, and that is really sad. The statistics say that about half of South African students drop out of school before completing secondary education, and that less than five percent of students who start primary school end up with university diplomas.

So, for a country like South Africa where you see a sophisticated economy in other sectors, particularly in the financial sector, this is not fair and this has to change.

**MR. EDWARDS:** The financial sector is interesting in South Africa in terms of technology. Technology increasingly is playing an important role in providing services to sectors of the population that have been traditionally under-served or left out. How is South Africa doing in terms of putting their services online and how do you think that might affect living standards and its economy in the coming years?

**MS. CORONEL:** Yes, South Africa is at the forefront of the digital revolution in Africa. That is benefitting basically the banks. It is also benefitting the population as a whole up to a certain extent, particularly because now they have more access to financing because of technological advances like mobile banking.

Also, the central bank is using technology. It has established a FinTech unit which is a model on the continent, and it is used for the clearing and settlement of transactions, using distributive ledger technology.

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Another very interesting development with technology is the link between digitalization and governance. For instance, the government is now emphasizing electronic payments of taxes, which is a key issue in South Africa. Also, customs declarations now are done electronically, and in this way, you save time and save costs.

Another example is the new automated procurement system which is very interesting because it captures data on the beneficiaries of government contracts, which is very good in terms of improving governance in the country.

Having said that, I think the use of technology has still a long way to advance in South Africa given the potential of the economy. For example, the cost of internet is high and the quality is low. That could change because it would benefit the population as a whole. The reason why it is like that is because there are very few competitors. So, the recommendation of the IMF is to increase competition in all sectors so that the prices of the products could go down and the quality could improve.

**MR. EDWARDS:** Thank you very much.

**MS. CORONEL:** Thank you.

**MR. EDWARDS:** Ana Lucia Coronel heads the IMF team for South Africa and oversaw the production of its latest economic review. You can read the full report at [imf.org](http://imf.org). And if you liked this podcast, you can subscribe on iTunes or on your favorite podcast app; just search for "IMF podcasts." You can now also follow us on Twitter: @IMF\_podcast.

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