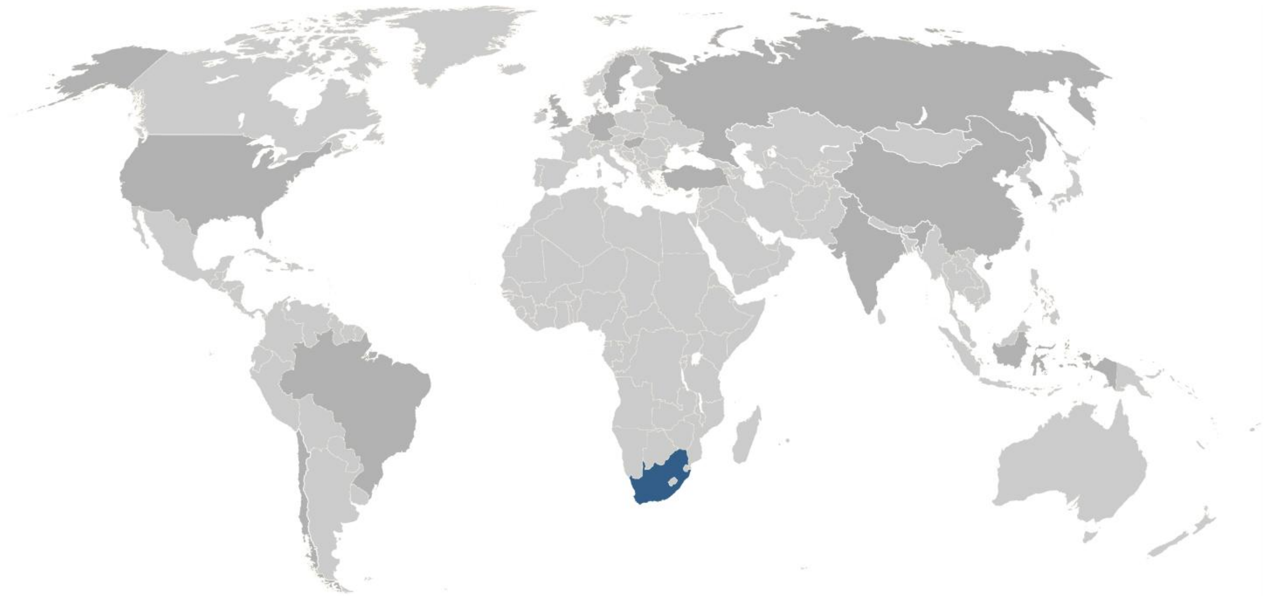
Managing the Crisis |

South Africa Country Report

Thembinkosi Dlamini



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1. Risk Exposure at the Outset of the Crisis

- What was the structure of demand (e.g., share of private/state consumption, gross capital formation, exports and imports in GDP/GNI)?
- To what extent was the economy exposed to macroeconomic imbalances (e.g., foreign debt, trade or fiscal imbalances)?
- Was/is the financial system primarily bank- or market-based?

Economic structure and macroeconomy

During the period preceding the global financial crisis, South Africa benefited enormously from a buoyant economy. A combination of favorable external and domestic factors was behind its impressive economic expansion. High commodity prices coupled with strong domestic demand and a rapid expansion of credit were among the key factors that raised growth to an average of 5 percent between 2004 and 2007.[1]

High rates of economic growth were maintained through heavy investments in infrastructure. In particular, capital spending in South Africa had been increasing since 2001.[2] Gross capital formation accelerated from 10.2 percent in 2005 to 16.3 percent in 2007 before slowing down to 10.2 percent in 2008.[3] At current prices, GDP grew steadily from ZAR 1,808.3 billion in 2006-07 to ZAR 2,321.2 billion in 2008-09 and is projected to reach ZAR 3,111.3 billion in 2012-13.[4]

South Africa's balance of payments failed to maintain a positive balance before the financial crisis because there was considerable disparity between savings and investment. Exports grew from 21.1 percent of GDP in 2000 to 24.8 percent of GDP in 2007, while imports grew from 20.5 percent of GDP to 29 percent of GDP over the same period. The current account deficit increased to 7.1 percent of GDP during the first three quarters of 2007 from 6.5 percent in all of 2006.[5]

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[1] IMF Country Report: South Africa 2009, http://www.imf.org/external/pubs/ft/scr/2009/cr09273.pdf (accessed November 30, 2009).

[2] Gross capital formation in the public sector grew by an average annual rate of 5.6% between 2002 and 2006, while the average annual private-sector growth was 12.9% over the same period. This same period also saw government expenditures grow at the following rates for the listed areas: wage expenditures, 1.8%; non-wage expenditures, 9.4%; and transfers to households, 21.1%.

[3] National Budget Review 2008, http://www.treasury.gov.za/documents/national%20budget/2008/review/Default.aspx (accessed September 30, 2009).

[4] Figures quoted in rands can be converted into U.S. dollars by multiplying them by 7.5. This is the exchange rate quoted by the First National Bank for September 30, 2009.

[5] The ratio of export to import prices benefited from high commodity prices and increased by 2.9% in the first three quarters of 2007 compared with the same period in 2006. Although ex-

In 2008, government consumption rose to 20.4 percent, which marked the first time since the beginning of the 1990s that the ratio for a single calendar year exceeded 20 percent.[6] Prudent fiscal policy management created fiscal space, which was reflected by the existence of a small budget surplus of 0.8 percent of GDP in 2007-08.

In the period preceding the financial crisis, South Africa's banking system also remained stable, and banks were adequately capitalized. The South African banking sector's capital-adequacy ratio remained above the minimum requirement of 9.5 percent and reached 13.0 percent at the end of December 2008. At that time, total banking-sector assets amounted to ZAR 3,170 billion, which denoted an annual growth rate of 24.5 percent year-on-year.[7]

- What was the government's economic record (e.g., growth, unemployment rate, inflation and fiscal position) prior to the crisis?
- What was on the economic agenda prior to September 2008 (e.g., anti-inflation, efficiency-oriented, redistributive, supply vs. demand-side policies)?

Policy priorities prior to crisis

The main priorities for South Africa between 2006 and 2008 were investments in infrastructure, and particular emphasis was placed on broadening access to basic household services, public transport, education and health, fighting crime and improving service provision as well as to labor-intensive employment and industrial policy initiatives aimed at raising productivity and employment.[8]

Macroeconomic policy during this period was focused on promoting growth and fighting inflation. Accelerated infrastructure development was geared toward crowding in private-sector investment and sustaining healthy economic growth, while an expansionary fiscal position aimed at boosting domestic savings and competitiveness. However, when it comes to the macroeconomic balance, rising inflation and a substantial current account deficit presented some challenges. Under these circumstances, monetary policy was designed to prevent inflation from undermining competitiveness

ports saw moderate growth in 2007, this growth was not enough to offset rising imports. Robust growth in fixed investment spending boosted demand for capital goods imports, while domestic capacity constraints have necessitated higher imports of raw materials, such as cement and steel.

[6] South African Reserve Bank, *Quarterly Bulletin*, March 2009, http://www.reservebank.co.za/internet/Publication.nsf/LADV/9E3935E5E5E3DC3142257583004885D2/$File/QB+March+09.pdf (accessed September 30, 2009).

[7] South African Reserve Bank, *Bank Supervision Annual Report*, 2007, http://www.reservebank.co.za/internet/Publication.nsf/LADV/0D8A87FB716A03624225749500209F56/$File/Annual+Report+2007.pdf (accessed September 30, 2009).

[8] National Treasury, *Medium Tern Budget Policy Statement*, 2007, http://www.treasury.gov.za/documents/mtbps/2007/mtbps/speech.pdf (accessed Septmber 30, 2009).

by easing household consumption and capacity constraints resulting from sustained investment. Greater investment in education and skill development were also important for reducing wage pressures in the general labor market as well as in key sectors where skilled labor is in short supply.

Before the financial crisis, South Africa enjoyed a relatively good monetary policy environment. Good monetary policy management resulted in lowering inflation to the mid-single digits. In March 2007, the CPIX inflation rate measured 5.5 percent but rose slightly, to 6.7 percent, in September 2007, primarily as a result of higher food prices. This period also witnessed strengthened public finances and an improved external reserve position. Federal government revenue grew at a steady pace in the first half of the 2008-09 fiscal year and reached ZAR 285 billion, which represents a 11.7 percent year-on-year rate of increase, while government expenditure in the first six months of the 2008-09 fiscal year totaled ZAR 301 billion, which represents a 14.9 percent year-on-year rate of increase.

Between 2002 and 2007, unemployment declined slightly, from over 30 percent to 23 percent. In 2007, real growth accelerated from a revised annualized rate of 4.8 percent in the third quarter to 5.3 percent in the fourth quarter. Growth was mainly fuelled by strong domestic demand.[9] However, in hindsight, Tito Mboweni, the head of the South African Reserve Bank (SARB), notes that economic growth has not yielded the most desirable results as far as employment creation is concerned since experts claim that improved income levels since 1994 have been driven more by welfare transfers than by labor market absorption. Up to 2005, growth in employment largely kept pace with real GDP growth, although this pace was not enough to absorb the increasing number of people entering the labor market. The revised work-force survey estimates reveal that, between March 2001 and March 2007, the trend for the absorption rate was downward, from 45.8 percent to 44.1 percent.[10]

While delivering the 2008 Medium Term Budget Policy Statement (MTBPS), then-Minister of Finance Trevor Manuel stated that the key issue related to how the country would respond to the international storm.[11] He mentioned the fact that, over the past 14 years, South Africa's government had made some tough decisions on the budget, spending, taxation, exchange

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[9] The main drivers of household consumption were growing disposable income and wealth effects from rising housing and stock prices. Private investment, on the other hand, was buoyed by strong business confidence and high commodity prices.
[10] Address by Tito Mboweni, governor of the South African Reserve Bank, at the 10th Annual Steve Biko Memorial Lecture held at the University of Cape Town on September 10, 2009, http://www.treasury.gov.za/documents/mtbps/2008/mtbps/speech.pdf.
(accessed September 30, 2009).
[11] National Treasury, *Medium Term Budget Policy Statement 2008*, 21/10.

controls, banking regulation and inflation targeting and that South Africa was prepared to face its most severe economic test in decades with the rest of the world.

- How stable was the executive branch in the years/months prior to September 2008 (e.g., credibility/legitimacy of leaders/parties in government, cabinet stability/reshuffles, parliamentary/electoral support)?
- How much room did fiscal conditions provide for a major stimulus (e.g., budget surpluses/deficits, conditions for issuing additional treasury bonds)?
- How much room was there for monetary policy initiatives (e.g., pre-crisis level of interest rates, required reserve ratios, flexibility of foreign exchange rate regime)?

Executive, fiscal & monetary capacities to respond to downturn

During the period preceding the financial crisis, the African National Congress (ANC) government was stable in both political and institutional terms. According to the political risk index of the U.S.-based research and consulting firm Eurasia Group, which ranks 24 emerging markets across the world, South Africa is in tenth position, right below China.

Over the last few years, South Africa's fiscal position was strong, and large revenue gains from robust economic growth and improved revenue administration more than offset the impact of high expenditure growth on the fiscal balance, which moved from a deficit of 0.5 percent of GDP in 2005-06 to a surplus of 0.6 percent in 2007-08. Likewise, debt service declined as a percentage of GDP, from 3.3 percent in 2005-06 to 2.7 percent in 2008-09.

Before the financial crisis, monetary policy in South Africa operated within an inflation-targeting framework; it was guided by the usual inflation-forecast-based rule according to which the policy interest rate gradually responds to deviation of projected inflation from the target and to the output gap. In the period immediately preceding the crisis, monetary policy began to face a number of challenges. For example, despite a tighter stance in terms of monetary policy, inflation consistently rose. In spite of a cumulative increase of 200 basis points in the repurchase rate in 2006, the targeted inflation rate breached the upper end of the inflation target range for the first time since August 2003. In 2007, inflation remained above the upper limit of the inflation target range (3% to 6%), increasing to 6.5 percent in July before decreasing slightly in August, to 6.3 percent. Moreover, even when excluding food and energy prices, broader underlying pressures remained evident. The interest rates increased by a cumulative 500 basis points beginning in June 2006.[12] In August 2008, interest rates remained at 12.0 percent.

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[12] Interest rates increased by 300 basis points between June 1, 2007 and mid-June 2008. This increase was part of an effort to contain second-round inflationary pressures and to anchor expectations fueled by record increases in the prices of petrol, diesel, food and electricity.

During the years preceding the crisis, South Africa maintained a floating exchange regime. The SARB maintained its policy of purchasing foreign exchange in the market to gradually build up its reserve position, without seeking to influence the value of the exchange rate. The South African rand has been allowed to depreciate in the event of capital outflows and to flexibly adjust in cases of adverse shock. The inflation target regime and the floating exchange regime helped South Africa respond promptly to the effects of the crisis on monetary policy. For example, the SARB Monetary Policy Committee (MPC) was able to increase the frequency of its meetings—from a quarterly to a monthly basis—in order to respond quickly by adjusting the interest rates in response to movements in the inflation rate. Although the primary mandate of the SARB is to achieve and maintain price stability, the decisions the MPC made in response to the financial crisis did take into account the movements in the exchange rate.

Exposure to specific market and trade risks

- To what extent has the country been exposed to global financial market risks, particularly contagious/toxic financial instruments (e.g., open capital account, floating or pegged/fixed currency)?
- How important was/is the financial sector for the national economy? What was/is the extent of interdependence between the financial sector and real economy?
- To what extent was the economy integrated into regional/global trade flows? How dependent was the economy on foreign demand for manufactures and commodities?
- Did property, equity or other markets display excessive growth and a bubble-like situation prior to September 2008?
- In what condition was the banking sector (e.g., size/structure of banking sector, non-performing loans, capital adequacy ratios of major banks, if available)?

The minimal integration of the South African financial system into the world financial market meant that there was minimal exposure to the riskiest financial products. As a result, South African banks have been largely cushioned against the negative effects of the crisis. Domestic banks did not invest deeply in high-risk securities or complex instruments and kept a conservative banking model. The banking sector was further shielded from developments in global financial markets by its limited exposure to foreign-currency-denominated assets as well as its limited dependence on foreign-currency-denominated funding liabilities. South African banks maintained levels of capital well in excess of the already prudent regulatory requirements, and both their degree of leverage and off-balance-sheet risk exposures were much lower than those of the failed banks in other countries.

Nevertheless, South African banks did feel the effect of the crisis indirectly through higher funding costs and increased impairments, which were attributable to the negative impact of the lower real economic activity on borrowers after several years of high credit growth.

South Africa is a small, open economy that is heavily dependent on trade-related economic developments in advanced countries. The 30 OECD member countries, which together account for 59 percent of global GDP (valued at PPP exchange rates), have been important destinations for South African exporters, and the share of South African exports heading to OECD countries increased from 46 percent to 65 percent between 1992 and 2005. Furthermore, South Africa's trade relations before the crisis were highly concentrated; three-quarters of its exports went to 20 countries, and roughly 82 percent of the exports to these 20 countries went to 12 OECD countries.[13] This high dependence on trade exposed South Africa to the negative effects of the financial crisis.

Nevertheless, there are more and more signs that financial stabilization and economic recovery are taking root. The IMF expects a global growth rate of 3.1 percent in 2010, whereas it projected a contraction of 1.1 percent for 2009. South Africa will benefit from a recovery in global demand and high commodity prices, largely as a result of growth in China and India. Real GDP growth is projected to be 1.5 percent in 2010, and it is expected to rise to 3.2 percent by 2012. Renewed capital flows to emerging markets will also reduce the cost of capital and finance fixed investment.[14] Moreover, the IMF's latest World Economic Outlook (WEO) projects a contraction of 2.2 percent in 2009 for the South African economy, citing the fact that it was initially hard-hit by the financial crisis because it is highly integrated into global financial markets.[15] The WEO forecasts an optimistic 1.7 percent rate of growth in GDP for 2010, while the South African government forecasts a more conservative GDP growth rate of 1.5 percent.

In 2007, the South African banking system was stable, and banks were in good shape. Banks maintained capital-adequacy ratios that were above the minimum requirement of 9.5 percent. This ratio stood at 12.78 percent at the end of December 2007, as compared with 12.29 percent in December 2006. Banking-sector assets increased from ZAR 2,075.3 billion at the end of December 2006 to ZAR 2,547.0 billion at the end of December 2007, which reflects an annual growth rate of 22.7 percent compared with 23.7 percent in December 2006. The average daily amount of liquid assets held in December 2007 represented 112.5 percent of the statutory liquid-asset requirement. Credit risk ratios deteriorated during 2007. Non-performing loans increased

[13] South African Reserve Bank, *Quarterly Bulletin*, March 2009, http://www.reservebank.co.za/internet/Publication.nsf/LADV/9E3935E5E5E3DC3142257583004885D2/$File/QB+March+09.pdf (accessed November 30, 2009).

[14] National Treasury, *Medium Term Budget Policy Statement*, 2009, http://www.treasury.gov.za/documents/mtbps/2009/mtbps/speech.pdf (accessed January 10,2010).

[15] International Monetary Fund, *World Economic Outlook*, October 2009: 90. http://www.imf.org/external/pubs/ft/weo/2009/02/index.htm (accessed January 10, 2010).

from ZAR 18.8 billion at the end of December 2006 to ZAR 29.4 billion at the end of December 2007, which represents an annual growth rate of 56.4 percent.[16] Expressed as a percentage of total loans and advances, non-performing loans grew from 1.1 percent at the end of December 2006 to 1.4 percent at the end of December 2007.[17]

- Did policymakers/executive agencies have any experience in handling financial crises? Did this experience play a role in the 2008-09 policy response?
- Were there independent regulatory institutions or prevention/response schemes in place to contain financial risks?
- Were there internal veto players (e.g., federalist powers, courts) or international obligations that thwarted swift action on the part of the government?
- Have executive powers been extended in times of crisis? Has this been based on formal or informal mechanisms?

Structural or policy advantages and disadvantages

South Africa has not been directly hit by any of the most famous global financial crises, and its prudent regulatory steps have cushioned it from the negative effects of the current financial crisis. A very strong regulatory framework for the financial system, which is supported by strong regulatory institutions, had already been put in place before the recent crisis hit. Because socioeconomic conditions in South Africa have long been tied to a depressed macroeconomic environment, South Africa began regulating its financial industry as early as the 1980s. According to an SARB history of financial regulation in the country, industry codes of business conduct and ombudsmen procedures aimed at addressing consumer complaints were established in 1985. Further regulation, inspired by financial innovation and capital mobility, took place after the late 1980s. As a result, rules on corporate governance, disclosure, transparency and accountability became key regulatory concepts. This period was also characterized by the development and widespread adoption of core principles of bank supervision, and similar efforts were made for the capital markets. Likewise, fundamental concepts of risk management and associated control systems were increasingly accepted as being the cornerstones of supervisory practice.[18]

Recent developments in the regulatory framework have seen the incorporation of international best practices in the banking regulatory environment. It is against this backdrop that the Basel II laws and regulations and the Core Principles issued by the Basel Committee on Banking Supervision have re-

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[16] South African Reserve Bank, *Bank Supervision Annual Report*, 2007, http://www.reservebank.co.za/internet/Publication.nsf/LADV/0D8A87FB716A03624225749500209F56/$File/Annual+Report+2007.pdf (accessed January 10,2010).

[17] The increase in interest rates, together with other adverse developments in the South African and international economic environments, contributed to the deterioration in credit risk ratios.

[18] Hans Falkena, Roy Bamber, David Llewellyn and Tim Store, *Financial Regulation in South Africa* (Pretoria: South African Reserve Bank, 2001).

mained the two key standards shaping the SARB's regulatory and supervisory framework.

In 2006, the SARB performed a self-assessment of compliance using the revised Core Principles. Its main objectives were to benchmark the South African banking supervisory system against the Core Principles, to conduct a comprehensive gap analysis and to develop an action plan for eliminating any identified shortcomings. The Bank implemented the proposed rectification plans, which ensured full compliance with the Core Principles.[19]

In 2007, the IMF approached the SARB with a request to conduct a pilot study on South Africa's implementation of Basel II. The purpose of the pilot study was twofold:

- It would serve as an independent assessment and benchmarking of South Africa's implementation of Basel II.
- The IMF and the World Bank wished to test and calibrate their joint approach to and documentation of the assessment of a country's Basel II implementation for Financial Sector Assessment Program (FSAP) and Article IV purposes.

The pilot study comprehensively covered the entire Basel II implementation process and entails visits to three banks and meetings with an auditing firm and a rating agency. Canada, Peru and Spain also participated in the study. In addition, the SARB submitted extensive relevant information to the team in December 2007. The team used this information as the basis for its detailed desktop analysis, which had been completed prior to its visit to South Africa in January 2008. The study team presented the SARB with its final report in June 2008. The report concluded that, overall, the Basel II implementation process in South Africa had been of high quality, had been carried out by a professional and competent supervisory staff and a strong buy-in from the industry, and reflected a high degree of compliance with the criteria in the methodology. The SARB's staff members translated the recommendations contained in the IMF/World Bank report into action plans and are monitoring their implementation on a monthly basis.

Furthermore, although the international credit insurer Coface downgraded the credit rating of some of the world's major economies, it maintained South Africa's A3 negative watch rating. In a statement, the company said that, during the period of economic boom, many businesses viewed South Africa's fiscal policy as being archaic and harmful in terms of building a

[19] South African Reserve Bank, *Bank Supervision Annual Report*, 2007, http://www.reservebank.co.za/internet/Publication.nsf/LADV/0D8A87FB716A03624225749500209F56/$File/Annual+Report+2007.pdf (accessed November 30, 2009).

globally competitive economy.[20] It also cited the Bank Act of 1990 Chapter VI Prudential Requirements 72, which stipulated the minimum liquid assets that banks were required to hold and prevented South African banks from investing more than 20 percent of their liquid assets in any one venture. Exchange control regulations also prevented companies working in South Africa from removing more than 75 percent of their capital assets or earnings from the country. Likewise, when the National Credit Act (NCA) was enacted in mid-2007, many believed that it was overly cautious and put tight restrictions on many credit providers and businesses looking for loans to fuel economic growth. Nevertheless, Coface states that it has precisely been this cautious monetary policy that has protected South Africa for the most part from the worst of the global financial crisis. Moreover, the NCA legislated that local banks and credit providers had to assume a more prudent approach to lending than their overseas counterparts. According to Coface, the spread of investments that banks were accordingly forced to make resulted in protecting the investments of local banks.

- How strongly has the national economy been hit during the period under review? Where has it been hit most severely thus far (e.g., growth rate, production, trade, employment)?

Initial impact of economic downturn

Like all emerging countries, South Africa did not elude the negative consequences of the financial crisis. This came despite the fact that its domestic financial institutions had virtually no direct exposure to the toxic assets that were a key element in the weakening of credit markets. The contraction in real domestic product seen in the last quarter of 2008, which stood at an annualized rate of 1.8 percent, was the first contraction in 10 years.[21] It came as a result of fading consumer and business confidence coupled with falling global demand and a moderately contractionary domestic monetary policy. In 2008, growth in real GDP slowed to 3.1 percent, after an impressive four successive years in which annual growth had remained at around 5 percent.

In the second half of 2008, South Africa's balance of payments moved in tandem with developments in the global economy. In the fourth quarter, the volume of exports contracted by 6.3 percent as a result of the marked deterioration in real output growth of South Africa's major trading partners, and import volumes also decreased by 6.7 percent. On balance, this resulted in a

[20] Cf. Julie Solipa, "Good fiscal policies fares South Africa well in 2009," *Money Web Undictated*, March 12, 2009 http://www.moneyweb.co.za/mw/view/mw/en/page662?oid=280395&sn=Detail (accessed January 10, 2010).

[21] South African Reserve Bank, *Quarterly Bulletin*, March 2009, http://www.reservebank.co.za/internet/Publication.nsf/LADV/9E3935E5E5E3DC3142257583004885D2/$File/QB+March+09.pdf (accessed November 30, 2009).

significant narrowing of the deficit on the current account of the balance of payments in the fourth quarter of 2008, to less than 6 percent of GDP.

The largest negative contribution to growth came from the manufacturing sector, which recorded contractions in several sub-sectors, the most prominent of which were seen in those related to the manufacture of chemicals and wood and paper products. Agricultural production also declined in the second quarter, when the maize harvest was smaller than it had been in the previous season, and animal husbandry edged lower. By contrast, in the second quarter of 2009, real value added in mining recovered somewhat, led by increases in the mining of metals in the platinum group and diamonds.

The volume of imports and exports fell markedly in the final quarter of 2008 and the first quarter of 2009. Although the strong contraction in imports continued in the second quarter of 2009, the volume of exports registered only a marginal decrease.

Owing mainly to these volume changes, the trade balance reversed itself into a surplus. In addition, a moderate narrowing of the shortfall on the country's services, income and current transfer account with the rest of the world was registered. As a result, the deficit on the current account of the balance of payments narrowed significantly, to 3.2 percent of GDP. This deficit was financed through a combination of direct and portfolio investment inflows. Foreign direct investment in South African telecommunications enterprises continued to rise, while foreign interest in South African shares and debt securities picked up and there was a general improvement in sentiment toward emerging-market assets.

2. Agenda-Setting and Policy Formulation

- When did state organs (e.g., government, central bank) begin setting a crisis response agenda? How long did it take to adopt the first crisis measures?
- Who were the driving forces (e.g., government, central bank, foreign actors, media, trade unions, employers` associations) in getting stabilization/stimulus policies started?
- Were these measures launched as executive orders or parliamentary laws? How closely did constitutional bodies (e.g., executive, legislative, central bank) cooperate?
- What kind of role did sectoral or regional lobbies play in policy formulation?

Agility and credibility

South Africa's initial reaction to the financial crisis was generally one of great optimism. The authorities expressed a great sense of hope that the country was well-positioned to bear up against the economic meltdown. In his October 2008 Medium Term Budget Policy Statement (MTBPS), then-Finance Minister Trevor Manuel said that South Africa's low levels of debt, prudent approach to fiscal policy-making and sound banking system would enable the country to weather the global economic storm. As a result, the country was a bit late in coming off the starting blocks in terms of responding to the crisis.

In 1994, the South African government put structures in place that assure that social dialogue accompanies the development of economic policies and that civil society has both an opportunity and a platform to articulate its voice in this process. This is accomplished at both the political and the governmental levels. At the political-party level, political partners within the ANC develop economic policy through its Economic Transformation Committee. From a government perspective, once a relevant government department has a specific economic policy, it must submit it to the National Economic Development and Labour Council (NEDLAC), whose stakeholders (drawn from government, labor, business and community groups) then debate and come to an agreement on particular policy measures. These measures are then introduced in the form of a bill for debate within parliament, which must also make room for public participation in its structures and processes before the bill becomes law. Furthermore, in the Presidency(i.e., the Office of the President, comprising the president, the deputy president, the minister of national planning commission and the minister of performance, monitoring and evaluation), economic working groups are formed to provide input into the development of economic policies.

Examples of economic policies that have been adopted in this manner include: the Reconstruction and Development Programme (RDP), an integrated socioeconomic policy framework formed in 1994 to mobilize the country's resources toward completely eradicating apartheid and building a democratic, non-racial and non-sexist future; the Expanded Public Works Programme (EPWP), which was designed to create short-term jobs; the Accelerated and Shared Growth-South Africa (ASGISA) set of initiatives, which aims to help spur rapid shared growth in South Africa; and the Joint Initiative on Priority Skills Acquisition (JIPSA), which aimed at addressing the scarce and critical skills needed to meet ASGISA objectives.

In December 2008, social partners met to consider how South Africa should respond to the international economic crisis. In January 2009, then-President Kgalema Motlanthe officially announced the framework response to the crisis in his State of the Nation address. For example, he announced that government and its social partners had agreed on interventionist measures aimed at minimizing the impact of the crisis. The social partners consisted of representatives drawn from the labor, business, government and social communities, who were also responsible for guiding the framework's implementation. On February 19, 2009, the joint economic presidential working group approved the framework as the basis for a national response to the impact of the international economic crisis on South Africa. The framework has been praised at the international level for bringing together social partners in forging a common response, and it has been held up as an example of how countries can respond to the current financial crisis in a sustainable manner. The minister of economic development, working with the Presidency, has chaired the leadership team of social partners, while other ministers have been in charge of leading efforts to implement specific framework programs. Several concrete programs for implementing framework decisions have been developed in collaboration with social partners. For example, they set up a training layoff scheme as one alternative to retrenchment for workers and companies affected by the recession, steps to strengthen the ability and capacity of the South African Revenue Service (SARS) to address instances of customs fraud that has led to the loss of many jobs, support for distressed companies in a number of sectors and government payments to small, medium and micro enterprises (SMMEs) and other businesses within 30 days.[22]

Consultation with external experts and openness to international collaboration

- Did policymakers actively consult domestic and/or foreign experts outside of government?
- Did the government actively seek collaboration with other governments or international organizations?
- Did the government participate in multilaterally coordinated rescue efforts?
- Was the government curtailed in its response through IMF support programs?

The South African response plan to the financial crisis was put together by a task team made up of government, business, community and labor representatives. Although there is no tangible evidence of external expertise in the formulation of the plan, it benefited from government-linked research institutions as well as consultations with other non-governmental labor and business institutions.

The South African government played a crucial role in various international forums aimed at addressing the financial crisis. A South African delegation led by then-President Kgalema Motlanthe presented four points for consideration at the G-20 summit held in London on April 2, 2009: stabilizing global finance; combating the global recession; deploying resources to support demand and sustain investment in developing countries; and laying the foundation for a long-term recovery. South Africa supported agreements made at the summit, including tripling the resources available to the IMF, to

[22] Statement by President Jacob Zuma following a briefing on the framework response to the economic crisis, August 5, 2009, http://www.info.gov.za/speeches/2009/09080609351004.htm (accessed February 10, 2010).

$750 billion, and supporting a new Special Drawing Rights (SDR) allocation of $250 billion, an additional $100 billion in lending from the Multilateral Development Banks, ensuring $250 billion for trade finance and using additional resources derived from the sale of IMF gold for concessional finance for the poorest countries.[23]

President Jacob Zuma also participated in the World Economic Forum on Africa held in Cape Town in June 2009, where he expressed the view that the economic downturn is providing both challenges and opportunities for the continent, in particular, and the developing world, in general. He pointed out that one of the critical lessons the world should take from the crisis is that its needs to transform the global financial system. In addition, he supported the need for a comprehensive reform of the governance of the global financial system and the Bretton Woods Institutions, the IMF and the World Bank, and noted that these need to reflect the changing economic realities and challenges and to provide a voice and representation for emerging and developing countries.[24]

3. Policy Content

- How large is the stimulus package as expressed as a percentage of GDP (including compensations to those hit particularly hard by the crisis through social/labor policies)?
- The stimulus is spread over a period of how many years?

Scope of stabilization and stimulus policies

The initial policy stance of South Africa's government toward the crisis was to monitor the banking and financial sectors and take appropriate steps when needed.[25] It has been said that this stance was adopted because South African financial institutions did not have a significant degree of direct exposures to the U.S. housing market or its failing banking and credit institutions. At the time, some expressed the opinion that there was a high degree of confidence in South Africa's banking system and that—because of the strength of the domestic banking system, its lack of direct exposure to global deleveraging and the continued efficiency of the interbank market—there was no need for the measures similar to those being implemented elsewhere.

[23] G-20 Media Statement, The Presidency South Africa, April 3, 2009, http://www.thepresidency.gov.za/show.asp?type=pr&include=president/pr/2009/pr04031244.htm&ID=1614 (accessed November 30, 2009).

[24] President Jacob Zuma, World Economic Forum on Africa, Cape Town, June 10, 2009, http://www.dfa.gov.za/docs/speeches/2009/jzum0611.html (accessed November 30, 2009).

[25] National Treasury, *Medium Term Budget Policy Statement*, 2008, http://www.treasury.gov.za/documents/mtbps/2008/mtbps/speech (accessed November 30, 2010).

In November 2008, the tune changed somewhat. In an address before parliament, then-Finance Minister Trevor Manuel noted that the crisis was having a negative effect on the contract that the government had with the people and hurting its ability to foster a deep and durable democracy aimed at lifting millions of people out of a life of grinding poverty.[26] For example, he cited the depreciation of the rand against major currencies, the fall of the JSE All Share Index by roughly 30 percent since October 1, 2008 and significant declines in commodity prices (e.g., since January 1, 2008, platinum had dropped in value by 47%, gold by 13%, oil by 31%; since October 1, 2008, coal had dropped in value by 31 percent). He also noted declining food prices (at 14%) which had peaked at 50 percent year-on-year in May 2008.

Even at that point, no concrete proposals were put on the table. Instead, reference was made to the need for both an appropriate short-term response and a long-term one aimed at ensuring that domestic firms and people were more productive, more export-oriented and had higher saving and investment rates. Emphasis was placed on the need to prudently maintain a healthy growth rate in government spending while keeping public borrowing modest and sustaining low long-term interest rates. Equal weight was also placed on supporting sound regulatory policies and applying standards for accounting, auditing and transparency.

It was in the 2009 budget speech that the Treasury announced several measures, including the deferment of the mining royalties regime from the 2009 fiscal year to the 2010 one. The thinking behind this move was that it would provide a boost to the mining industry of roughly ZAR 1.8 billion, which would in turn help to minimize job losses. This decision was reportedly reached in consultation with labor groups and the ministry responsible for minerals and energy. Also muted was the idea of establishing an agency including labor, government and business representatives to deal with investment in the economic development of mining towns or labor-exporting areas affected by retrenchments.[27]

In the 2009 budget speech, Manuel summarized the main points of then-President Kgalema Motlanthe’s State of the Nation Address dealing with how the government will respond to the crisis. The following points were made:

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[26] Trevor Manuel, “The World Economy in Crisis,” Address to National Assembly on November 18, 2008, http://www.treasury.gov.za/comm_media/speeches/2008/2008111802.pdf (accessed November 30 2010).

[27] National Treasury, *2009 Budget Speech by Minister of Finance Trevor A. Manuel*, http://www.treasury.gov.za/documents/national%20budget/2009/speech/speech.pdf (accessed January 10, 2010).

- Over the next three years, the government will invest ZAR 787 billion in the infrastructure needed for future growth and development.
- It will accelerate the Expanded Public Works Program (EPWP) and work with businesses to mitigate job losses and accelerate the development of skills.
- It will strengthen development finance institutions and support industrial restructuring and agricultural development.
- The social assistance programs will reach over 13 million people, and public expenditures on education and health care will see significant increases.

From the documents reviewed as part of this study, it is not clear whether there really was new money in response to the crisis other than incremental spending on projects and programs that were already underway. In its *2009 Budget Review*, the government reiterated its position that "South Africa has chosen to sustain growth in public spending to build on the public-sector investment programme already under way, to expand labour-intensive employment programmes, to broaden social security benefits, to continue to invest in education, health and other public services, and to support well-targeted industrial development and that these elements provide a counter-cyclical boost that will assist in sustaining growth and minimising job losses."[28]

These projects included infrastructure development related to the 2010 FIFA World Cup and the Gauteng Freeway Improvement Project (GFIP), whose pro-poor strategic thrust has been found wanting in the aftermath of the world cup. Other commentators, such as Absa Capital research chief Jeff Gable, are of the view that "South Africa's fiscal and monetary policy response to the global recession had been relatively large, despite the fact that no formal stimulus or emergency response plan had ever been activated." Among the points that Gable makes is the fact that South Africa's fiscal surplus of around 1 percent in 2007-2008 had been entirely undone and that the unofficial fiscal stimulus is especially evident in the area of government infrastructure spending, which could rise to 9.6 percent of GDP in 2009-2010 from 8.3 percent in 2008-2009 as a result of programs launched before the crisis.[29]

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[28] National Treasury, 2009 Budget Review (Nov. 2), http://www.treasury.gov.za/documents/national%20budget/2009/review (accessed November 30, 2009).

[29] Terence Creamer, "Recession response material, but South Africa still to contract by 2.1% in 2009 - Absa Capital," September 28, 2009, http://www.polity.org.za/article/recession-response-material-but-sa-still-to-contract-by-21-in-2009---absa-capital-2009-09-28-1 (accessed January 10, 2010).

In keeping with previous statements—that is, that it would allow the rand to depreciate in the event of capital outflows—the SARB did not intervene in order to support the rand during the global market turbulence. Nor did it intervene in the other direction when the rand strengthened sharply in the first six months of 2009.[30] In response to an e-mail inquiry, the bank affirmed this position by stating that it has a floating exchange rate policy and no exchange rate targets.[31] However, the 2009 IMF Article IV report for South Africa found that the rand was moderately overvalued as early as July 2009 and that this had a negative effect on export competitiveness. The SARB does not have a specific timetable or target level of reserves and tends to purchase from the market as conditions permit, without seeking to influence the exchange rate. Between January and September 2009, gross foreign exchange reserves rose from $33.7 billion to $39.1 billion, largely as a result of proceeds from the National Treasury's foreign bond issue and the allocation of IMF special drawing rights worth $2.1 billion.[32]

Targeting and coverage of policy tools

- How is stimulus spending distributed across sectors? How and to what extent is the financial sector supported (e.g., through loans, guarantees, capital injections)?
- Which industrial and structural policies (e.g. corporate tax cuts, subsidies, company bail-outs) can be observed?
- What kinds of measures target the expansion of public spending on infrastructure? Which ones are designed to sustain business and consumer spending?
- Are policies in support of businesses adequately targeted and delineated (e.g., at creating employment, supporting competitive firms)?

As one response to the crisis, an additional ZAR 4.1 billion is provided in the 2009-10 budget to expand employment in public works. The extension of the program prioritizes longer-term jobs in the social- and municipal-services sectors, in adult literacy initiatives and in NGO-operated programs. The program includes a performance-based incentive for municipalities to increase the labor intensity of public works under their supervision. The Extended Public Works Programme (EPWP) is also one of the initiatives undertaken to advance socioeconomic rights, promote the right to work and alleviate poverty. Between 2004 and 2007, this initiative is estimated to have created almost 1 million temporary work opportunities, 48 percent of which were occupied by women (Development Indicators, 2008). Whereas beneficiaries of EPWP stipends are limited to the poor, the non-poor may benefit somewhat from EPWP spending—especially if they own a company that participates in the program or is subcontracted for infrastructure projects. Municipalities are also expected to exceed their targets for creating EPWP

[30] South Africa—Staff Report for the 2009 Article IV Consultation, http://www.imf.org/external/pubs/ft/scr/2009/cr09273.pdf (accessed November 30, 2010).
[31] E-mail response to author's request for information, October 29, 2009
[32] National Treasury, *Medium Term Budget Policy Statement*, October 27, 2009, http://www.treasury.gov.za/documents/mtbps/2009/mtbps/speech.pdf (accessed November 30, 2009).

jobs, and the contingency reserve has been increased to allow for additional funding of employment projects in the 2009 Adjustments Appropriation in October, if sufficient progress is made.

The largest adjustments to spending plans in the 2009-10 budget were related to poverty reduction; ZAR 25 billion was added to provincial budgets, primarily for education and health care, and ZAR 13 billion was added for social assistance grants and their administration, ZAR 4 billion was added to the school nutrition program, and ZAR 2.5 billion went to municipalities for basic services. The government also worked with businesses and organized labor organizations to protect work opportunities and accelerate the development of skills, additional medium-term funding was earmarked for the Working for Water and Working on Fire programs, ZAR 1 billion went to the Umsobomvu Youth Fund, and ZAR 3.7 billion was added for low-income housing projects.

To address regulatory and microeconomic barriers to competitiveness in the 2009-10 budget, ZAR 1.6 billion was added to industrial development and small enterprise support programs, and ZAR 1.8 billion went to rural development and to support small farmers. The budgets of the Illema/Letsema campaign, which distributes agricultural starter packs to poor households, the comprehensive agricultural support program and allocations to targeted rural infrastructure projects, received a further ZAR 1.2 billion boost. The budget for land reform and land restitution over the next three years totals ZAR 20.3 billion. An additional ZAR 1 billion was added for electricity demand management, together with tax incentives for investment in energy-efficient technologies. A new automotive production and development program was introduced that includes a production subsidy totaling ZAR 870 million over the next three years.

An additional ZAR 700 million was allocated for higher education subsidies and to accommodate for anticipated growth in student enrollment, from 783,900 in 2008 to 836,800 in 2011. The National Student Financial Aid Scheme received an additional ZAR 330 million. Participation in basic education, especially primary education, shows the most progressive access for the poor; it is estimated to stand at 25 percent. Over the next three years, infrastructure grants to municipalities will total ZAR 67 billion, and a further ZAR 45 billion will be spent on the Breaking New Ground housing program. It is anticipated that, together with investment in roads and public transport, these will constitute one of the largest areas of expansion in public sector spending and that they will be correctly prioritized as part of the response to the current deterioration in employment and economic activity.[33]

[33] National Treasury, *2009 Budget Speech by Minister of Finance Trevor A. Manuel*, http://www.treasury.gov.za/documents/national%20budget/2009/speech/speech.pdf (accessed January 10, 2010).

- Are stimulus measures influenced/limited by pre-crisis development strategies (e.g., industrial policies) or have novel/additional (e.g., environmental) policy objectives been inserted?
- Is the response to the crisis grounded in a broader developmental perspective (i.e., crisis as development opportunity) or predominantly short-term political constituency logic?
- Do stimulus policies address prevailing structural deficits and future growth potential?

Development as an objective of stimulus policies

The stated purpose of South Africa's response is clearly articulated in the national policy documents, including those related to the 2009-10 budget. In his speech before parliament on June 5, 2009, Finance Minister Pravin Gordhan stated that the budget provided for a deficit of 3.8 percent of GDP and that, together with the borrowing requirement of state-owned enterprises, the public-sector borrowing requirement is set to reach ZAR 186 billion. Foremost among the responses to the economic crisis, he said, is the ZAR 787 billion infrastructure investment program. He also reported that, in general, the major projects were on track and being funded and that the National Treasury was working with Eskom, Transnet, the National Roads Agency and water authorities to ensure that these enterprises can borrow the funds they need on the capital markets and with state support.

At the same time, however, he also noted that job creation depends on several factors: industrial and trade promotion, labor market arrangements, skills development, macroeconomic management, investment in technology, rural development, land-use planning, housing and urban development. In light of these factors, he emphasized that the South Africa government's approach going forward would be to ensure fiscal sustainability via a number of measures, including finding innovative ways to fund government programs and rooting out corruption and inefficiencies in order to ensure that the government gets a return on its investments. The measures are also meant to create better synergies and effective partnerships both within the government and with other stakeholders. During this period, he concluded, the National Treasury will also work with other departments to implement recommendations made by the Joint Presidential Economic Working Group in response to the global economic crisis.

More recently, Finance Minister Gordhan noted that, "The 2009 *Medium Term Budget Policy Statement* is tabled in a period of opportunity, at the intersection of an economic crisis and a change of administration, to reshape our economy, public finances and the state more generally—and to improve the lives of all South Africans." The administration has created the impression that it is interested in pursuing broader developmental imperatives rather than just making interventions inspired by a narrow-minded calculus meant to win or retain votes. Despite increased lobbying from individual labor and business organizations, South Africa has refused to issue bailout packages, preferring instead to make long-term interventions focused on growth and development. Although the 2009 MTBPS predicted that significant reductions in revenue would bring about changing fortunes and a worsened economic growth outlook, it did not propose any cuts in expenditures; instead, it envisioned a higher-than-expected deficit, at 7.6 percent of GDP and a public-sector borrowing requirement (including for state-owned enterprises) of up to ZAR 284.5 billion, or 11.8 percent of GDP. This borrowing is geared toward backbone infrastructure and services meant to serve as a foundation for future growth and development.

- Has the stimulus included "buy national" clauses? Have import-restricting mechanisms been newly established or re-established?
- Has the country's executive/central bank manipulated the exchange rate or intervened in the foreign exchange market (if so, in which direction)?
- Have there been measures to prop up export industries (e.g., tax rebates, direct export subsidies)?

National bias and protectionism

Although the framework of South Africa's response to the international economic crisis did not advocate any outright protectionist measures, there were some measures with a national bias. The framework proposed local procurement of supplies, services and other requirements wherever possible in order to maintain and increase local output and employment levels. This was particularly targeted at large procurement programs associated with major public and private investment projects. It also included measures for the procurement of pharmaceutical and medical supplies, clothing and textile products, food and perishables, stationery, computers, office equipment and consumables, automobiles and transport services, consulting services and printing. The framework also called for an immediate review of preferential procurement legislation.

The Preferential Procurement Regulations, 2009 were published for public comments in a government publication on August 14, 2009.[34] The regulations are meant to widen the scope and reach of the 2003 Broad-Based Black Economic Empowerment Act and associated codes of best practice aimed at favoring South Africa's previously disadvantaged black community. Such policies naturally introduce protectionist measures beyond just those of black economic empowerment. A case in point is a provision in the draft that will allow specific industries, as determined by the Department of Trade and Industry, to benefit from bid invitations indicating that only locally manufactured products will be considered.

[34] National Treasury, *Preferential Procurement Regulations*, http://www.treasury.gov.za/public%20comments/1-32489%2014-8%20Nat%20Treas.pdf (accessed January 20, 2010)

The framework agreement also requires South Africa to use trade measures to protect its industries and jobs. In response to increases in import tariffs on clothing—from 40 percent to 45 percent on 35 lines of garments—in a statement dated July 2, 2009, the Congress of South African Trade Unions (COSATU) welcomed the move, noting that its purpose was to protect the local market against cheap imports that might destroy local industries and jobs.[35] It also noted that, like any other country, South Africa had the right to increase applied tariffs to their maximum levels and that the increases complied with WTO regulations because they sought to protect infant or small developing industries. Moreover, there have been calls to step up efforts in the "Buy South Africa" campaign, which promotes the purchase and use of products made by households and firms based in the country.

Social protection

- Which labor market policies have been enacted (e.g., unemployment benefits, rise in public-sector employment)?
- Which social policies have been included (e.g., expansion of support, additional investment in health and education system)?
- Which measures have been taken to support purchasing power (e.g., consumer checks, tax cuts, cash transfers)?

South Africa's National Economic Development and Labour Council (NEDLAC) is working with the Unemployment Insurance Fund (UIF) to ensure that workers who face retrenchment will still benefit from the UIF if they are training to obtain new skills.[36] Previously, an employee first had to be dismissed or retrenched before benefiting from the UIF for six months. However, Herbert Mkhize, NEDLAC's executive director, says the council is currently reviewing the limitations to suit the economic crisis. Mkhize also says that the council and the fund will look at extending the UIF beneficiary limitation window period from six months to 12 months and that this can only be achieved through policy change. In an address before the National Congress of the National Union of Mineworkers, this position was affirmed by Labor Minister Membathisi Mdladlana, who also revealed that some labor laws will be amended to cushion the vulnerable sectors of society against the effects of the global economic meltdown. This was against a context in which more than 30,000 miners had already lost their jobs as retrenchments became a reality. Mdladlana also pointed out that UIF payouts will be increased and extended from six months to 12 months, that the labor law on

[35] "Amendment to Schedule No. 3," *Government Gazette* no. 32319 R.679 June 12, 2009 (includes a detailed classification of the affected lines found online at http://www.sars.co.za/home.asp?pid=42882)

[36] SABC News, "NEDLAC plans to change UIF rules," June 12, 2009, http://www.sabcnews.com/portal/site/SABCNews/menuitem.5c4f8fe7ee929f602ea12ea1674daeb9/?vgnextoid=4dd786d40b4d1210VgnVCM10000077d4ea9bRCRD&vgnextfmt=default (accessed January 10, 2010).

brokers will also be amended and that UIF benefits will be extended to public servants.

A training layoff scheme has been established as a direct response to the crisis. The scheme is targeted at companies considering job cuts or closure as a result of the recession. During a temporary suspension of work, employment contracts remain in place, and employers maintain their contributions to the basic social security package, but workers agree to forego their normal wages and receive training and an allowance instead of being retrenched. The scheme is funded by the National Skills Fund and the Unemployment Insurance Fund with an initial allocation of ZAR 2.4 billion. The Commission for Conciliation, Mediation and Arbitration oversees the scheme, while Sector Education and Training Authorities provide training. By October 2, 2009, 24 companies with 3,438 employees had applied to the scheme.[37]

The 2009-10 budget made an additional ZAR 13.2 billion available to the social grants program. This was in line with the extension of the child support grant, to children up to 15 years old, in January 2009. The government has also announced that, over the next three years, the child support grant will be extended to poor children up to their 18th birthday, which is likely to cost about ZAR 7 billion a year. A reduction in the eligible age for men up to 60 years old has been effected. The government has stated that strengthening the social security safety net is critical during this period in which many more poor families are vulnerable and that, beginning in April 2009, the maximum values of the old age, disability and care dependency grants will be raised by ZAR 50 to ZAR 1,010 a month, the foster care grant will increase to ZAR 680 a month and child support will rise to ZAR 240 a month. The treasury also reports that there is compelling evidence from recent research that the phasing-in of the child support grant has significantly contributed to reducing child poverty.

The Presidential Working Group has been meeting with CEOs of the four major banks in South Africa and the Banking Association South Africa. The meetings have been used to discuss the various collaborative steps required for addressing the flow of credit and investment finance to the real economy and households as outlined in Clause 3.14 of the framework, which stipulates that NEDLAC should engage the financial sector for this purpose. According to a statement released by NEDLAC, the meetings were undertaken in the context of ongoing work of the finance and investment task team

[37] National Treasury, *Medium Term Budget Policy Statement*, October 27, 2009, http://www.treasury.gov.za/documents/mtbps/2009/mtbps/speech.pdf (accessed November 30, 2009).

that has been meeting since March to formulate proposals.[38] These actions follow steps already taken to address the global economic crisis, including the establishment of a ZAR 6 billion facility, which the Industrial Development Corporation (IDC) has now made available.

The meeting discussed a range of ideas and proposals including:

- forms of risk-sharing between the public and private sectors
- various types of guarantees for lending institutions
- the need to ensure more effective engagement between debtors and financial institutions.

In the run-up to the NEDLAC Summit held on September 12, 2009, stakeholders from labor also expressed optimism that issues of high food prices, the proposed hike in electricity prices and issues of climate change would be tackled.

4. Implementation

- Does the government actively communicate and justify the rationale/goals of its stimulus policies to the public?
- Over time, how has the public responded to the government's management of the crisis (e.g., consumption/investment trends, public opinion polls)?

Political communication

The major vehicle for South Africa's framework response to the global economic downturn is the Presidential Economic Joint Working Group made up of organized labor, business, community and government representatives based at NEDLAC facilities. There has been only a limited degree of communication with the public about implementing the framework response published on February 19, 2009. Although there has been wide consultation under NEDLAC, there are major disagreements on policy issues, including the inflation targeting by SARB. Regarding this matter, labor is of the view that the SARB is aloof to the harsh economic realities of rising unemployment, inequality and poverty that workers face on a daily basis.[39]

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[38] Statement on meeting of National Economic Development and Labour Council (NEDLAC) with Bank CEOs, July 13, 2009, http://www.info.gov.za/speeches/2009/09071410151001.htm (accessed November 30, 2009).

[39] SeeMail and Guardian, *Cosatu Urges Review of Inflation Targeting* http://www.mg.co.za/article/2009-07-19 (accessed September 30, 2009).

- How large has the time lag been between adoption and implementation of selected major stimulus components?
- What are the reasons for delay in implementation (e.g., legal barriers, insufficient capacities, corruption)?
- Have sectoral or regional interest groups influenced the workings of policy implementation in any way?

Modes and time frame of implementation

The South African financial crisis response framework does not have a detailed implementation schedule with specific time frames. However, the framework does allude to broad time frames for some of its programs. These include the following;

- The ZAR 2.4 billion fund that will be placed in a National Jobs Fund and drawn from resources in South Africa's National Skills Fund and the Unemployment Insurance Fund. The jobs fund will pay workers training allowances, pegged at 50 percent of their basic wage, to a maximum of ZAR 6,239 a month. This will only apply to workers earning less than ZAR 180,000 per annum. The program will run for three months for any group of employees and is expected to be launched in September 2009.
- The Industrial Development Corporation will make ZAR 6 billion available over the next two years to support affected firms. A significant portion of the 2009 allocation went toward supporting firms facing financial difficulties while adjusting to the current crisis. The disbursement of the funds is expected to start before the end of 2009.
- The ability and capacity of the South African Revenue Service (SARS) will be strengthened to address customs fraud, which has led to many job losses. SARS has reported significant progress in terms of investigations, confiscating goods and prosecuting persons responsible for fraudulent import transactions involving, for example, smuggling, round-tripping and under-declaration of value. This work is ongoing and is expected to be accelerated beginning in September 2009.
- The Competition Commission's investigations into and prosecution of food companies allegedly involved in price-fixing saw much progress. These include investigations or actions related to bread, milling, dairy products, poultry, fats and oils, fertilizers and supermarkets. This work is also ongoing and is expected to gather momentum beginning in September 2009.

- Beyond emergency stand-by programs with the IMF, has the government collaborated with other governments or international organizations in implementing its response to the crisis?

International or regional cooperation

The Southern African Development Community (SADC) has been trying to accelerate economic integration in the region for a while. It has several ambitious goals—one of which was to establish a free-trade area by 2008--and others include establishing a customs union by 2010, a common market by 2015 and a monetary union by 2016.

The ultimate objective of SADC is to build a region in which there will be a high degree of harmonization and rationalization in order to enable the pooling of resources and thereby achieve collective self-reliance and improve the living standards of people living in the region. At the central bank level, an important milestone has been the completion of the drafting of the proposed SADC central bank model law, which will pave the way for the harmonization of legal and regulatory frameworks.

Ministers responsible for finance and investment met in Cape Town on February 25, 2009, in order to discuss the financial crisis and the nature of the regional approach to it. However, records of this meeting indicated that it was dominated by discussions on Zimbabwe's economic recovery efforts in view of the Global Political Agreement (GPA) and that the crisis was only mentioned in passing.[40] Subsequently, there was no extensive discussion of the global financial and economic crisis at the 29th SADC Head of States and Government Summit held in Kinshasa, Democratic Republic of Congo (DRC), between September 7 and 8, 2009, except for mention of the need for collaboration in tackling the issue made in the opening speech by Jacob Zuma, the SADC chairman and president of South Africa. At the G-20 meeting held in London in April 2009, the SADC group—represented by South Africa's then-finance minister, Trevor Manuel—only went as far as briefing the forum on economic developments for 2009 without so much as making a credible contribution or taking responsibility for a portion of the global response.

[40] See unofficial record by Hon. T. Biti, MP, Minister of Finance for Zimbabwe, March 2, 2009, http://www.zimtreasury.org/news-detail.cfm?News=54 (accessed January 10, 2010).

5. Funding, Tax and Monetary Policies

- Has the government initiated tax reductions/incentive schemes?
- Have these been aimed at the private and/or the corporate, domestic or the foreign sectors?

Tax policies in support of stimulus/ stabilization

Although the social partners task team that crafted the Crisis Response Framework for South Africa recommended a wide range of proposals related to tax relief targeted at low-income workers, the poor and companies in distress, it was decided that most of these proposals would be addressed in the 2009 National Budget. It was further agreed that the team would facilitate discussions to consider these proposals and their implications for the package as a whole.[41]

The 2009 National Budget proposed adjustments in the personal income tax schedules that will provide a relief of ZAR 13.6 billion to individual taxpayers and fully compensate for the effects of inflation and provide additional relief, primarily to lower- and middle-income earners. Taxpayers with an annual taxable income below ZAR 150,000 received 45 percent of the proposed relief; those with an annual taxable income between ZAR 150,001 and ZAR 250,000 received 22 percent; those with an annual taxable income between ZAR 250,001 and ZAR 500,000 received 21 percent; and those with an annual taxable income above ZAR 500,000 received 12 percent. The tax-free income threshold was set at ZAR 54,200 for taxpayers below the age of 65 and ZAR 84,200 for those over 65.[42]

- What kind of policies did the central bank contribute to the national crisis response? Which unconventional measures were used to fight the crisis?
- If an independent national monetary policy is not feasible, were there substituting measures in the country's exchange rate policy?

Monetary and currency policies in support of stimulus/ stabilization

The impact of the global financial crisis and the pace with which it spread to most parts of the world presented serious challenges for monetary policy-makers in general. It was against this backdrop that the SARB decided that it would be appropriate to meet more frequently in order to assess these rapidly

[41] NEDLAC, *Framework for South Africa's Response to the International Economic Crisis*, February 19, 2009 http://www.info.gov.za/view/DownloadFileAction?id=96381 (accessed January 10, 2010).
[42] National Treasury, *National Budget Review*, 2009, http://www.treasury.gov.za/documents/national%20budget/2009/review (accessed November 30, 2009).

changing circumstances in a timely manner and to be able to act appropriately, when necessary.

As was previously stated, the global financial crisis has had a significant impact on the South African economy and on its monetary policy, in particular. The economy has experienced a marked slowdown that has led to a widening of the output gap, declining demand and lower commodity prices. As a result of these developments, there was a change in the monetary policy stance. The repurchase rate was reduced by 50 basis points in December 2008 and by a further 100 basis points at each of the next three intervals. In total, this means that the repurchase rate has been reduced by 350 basis points since December 2008.

According to Jeff Gable, head of research at Absa Capital, the monetary policy response had been material, with the repurchase rate having fallen from 12 percent in the third quarter of 2008 to 7 percent and the prime rate from 15.5 percent to 10.5 percent by the end of September 2009.[43]

With regards to currency policy, the SARB did not use its reserves to influence the exchange rate of the rand and has not been required in any way to use its reserves to support the stability of the financial system in line with its exchange rate policy of non-intervention. However, the SARB did reduce its borrowed reserves, from $3.5 billion in 2006 to about $640 million at the end of February 2009. This reduction in borrowed reserves was a strategic decision made as South Africa's foreign reserves position became healthier, and it was not in any way fuelled by the financial crisis. By October 2009, South Africa's reserve position had improved to $39.1 billion, or 12 percent of GDP.

The 2009 MTBPS noted that, although fiscal and monetary policies have been eased substantially to support demand, the full benefit of lower interest rates for consumption and investment will only be seen after a certain period of time. Banks have reportedly remained cautious about extending credit, and households have been reluctant to take on new debt. Some have stated that this will cause debt overhand, which will result in South Africa's recovery lagging behind that of the rest of the world. As of October 2009, overall indicators of domestic demand have remained weak, and a gradual recovery has been projected over the medium-term.

[43] African News, Article by Terence Creamer, "Recession response material, but SA still to contract by 2.1% in 2009-Absa Capital," African News, http://www.polity.org.za/article/recession-response-material-but-sa-still-to-contract-by-21-in-2009---absa-capital-2009-09-28-1 (accessed February 11, 2011)

- Relative to conditions at the outset of the crisis, does stimulus funding have a solid foundation in monetary policy or in bond/credit markets?
- Is the program part of the normal budget/integrated into the budgetary cycle, or is it financed primarily from sources outside of the formal budget?
- Is there cross-level burden-sharing between center and regions (e.g., debt issuance, fund transfers)?
- Is financial aid given to banks/companies/households in a discretionary way or based on well-defined formulas (e.g., conditionalities)?
- Did the government make credible commitments to terminate its expansionary fiscal and monetary policies under (what kind of) post-crisis conditions?

Credibility of funding mechanisms

The framework for South Africa's response to the international economic crisis is based on two main principles:

- preventing the effects of the financial crisis from destabilizing the welfare of low-income workers, the unemployed and vulnerable groups as well as their jobs, health and education. This also entails avoiding increases in inequality and poverty.
- ensuring that all efforts in the framework are aimed at strengthening the capacity of the economy to grow and create decent jobs in the future.

The framework proposes to operationalize the two principles through various programs, such as:

- increasing public investment in economic infrastructure;
- deepening the joint stakeholder commitment to skills development;
- acting urgently on the commitment to introduce effective industrial or sector strategies;
- strengthening existing strategies;
- ensuring higher levels of private-sector investment and entrepreneurship;
- pursuing the transformation of informal economy activities and its integration into the formal economy;
- improving and streamlining government delivery and regulation;
- improving economic efficiency;
- committing to macroeconomic policies that support decent work and sustainable growth.

Most of the resources that have been committed to the Economic Crisis Response Framework for South Africa are allocated in the national budget. However, there is small portion of funds that is made available from the Development Finance Institutions (DFI) sector.

The fiscal stimulus includes significant levels of public investment in infrastructure. An allocation of ZAR 787 billion over the next three fiscal years (to March 2012) has been made available in the national budget. This investment will be used to expand and improve road and rail networks, public transport and port operations, dams, water and sanitation infrastructure, housing construction (including low-income housing and publicly owned rental stock), information and communications technology, energy-generation capacity and education and health infrastructure.

A special National Jobs Initiative led by the Presidency, which brings together a range of new and revamped separately administered programs, was expected to be launched in September 2009. The value of the new and revamped schemes is ZAR 10 billion over the three years of the Medium-Term Expenditure Framework. This will draw on resources in the IDC and a number of departments, including those for public works, labor, trade and industry, and minerals and energy.

This fiscal stimulus will also ensure that fiscal and monetary policy measures are used countercyclically, aggressively (when required) and in a way that complements trade and industrial policies. Business, labor and community organizations will meet with SARB to discuss the interest rate regime, lowering the cost of capital and reducing the real interest rate gap.

6. Feedback and Lesson-Drawing

- Have there been revisions or additions to the original policy packages or a sequence of distinct stimulus policies in response to unexpected new developments?

Policy feedback and adaptation

Several concrete programs to implement the Economic Crisis Response Framework decisions have been developed through engagements with social partners. To this end, in August 2009, the leadership group of the Framework Response to the Economic Crisis briefed President Jacob Zuma on progress in the implementation of the framework. It was noted that, although the framework is significant in itself, the central challenge is to ensure the timely implementation of the measures agreed upon by social partners. While it was acknowledged that significant technical work and important progress had been made, it was recognized that implementation needed to be stepped up.

The Independent Development Corporation of South Africa (IDC) made ZAR 6 billion available over two years to companies that had fallen into distress due to the recession. Since April 1, 2009, 11 financing applications totaling ZAR 743 million have been approved.

- Has major institutional reorganization/capacity-building been undertaken in financial supervision?
- Do we find new institutions that were not in place prior to the crisis (e.g., bad banks)?

Institutional restructuring

As stated elsewhere in this report, a task team comprising labor, business, government and community representatives was responsible for drafting, implementing and monitoring the Economic Crisis Response Framework. This task team did not advocate any institutional restructuring as part of implementing the framework, which was designed in line with the existing structures. Within government, a new, integrated approach to implementing the framework has been found. While the Ministry of Labour has led efforts to finalize the training layoff modalities, the finance minister has coordinated the customs and excise program, the Ministry of Trade and Industry has led the work on distressed sectors, and the minister of economic development has worked with the Presidency and chaired the leadership team of social partners.

7. Tentative Economic Impact

- What do major economic performance indicators tell us about the short-term effectiveness of the crisis response (e.g., growth rate, unemployment rate, industrial output, private consumption, consumer/producer confidence, inflation, exports, bank balance sheets, credit squeezes)?
- How has the political logic of crisis management (i.e., crisis as an opportunity to broaden political support) worked out for the major decision-makers so far? How has the reputation of major government leaders at the center of the crisis response evolved (e.g., based on polls, election results, backing within their political party)?

Economic and political effectiveness of the crisis response

There have been a number of proposals and recommendations from the Presidential Framework Response Team under NEDLAC. These include consumer challenges, such as rising costs for food and electricity. The NEDLAC finance and investment task team, which was set up in March to help find ways to soften the impact of the recession, met CEOs of South Africa's four largest banks, where union representatives were pushing for banks to relax stringent credit qualifications, particularly for companies with good business plans, so that they could ride out the recession and avoid retrenchments. By the end of 2008, banks had seen bad debts rise nearly twofold, and the task team engaged them to see if there was any flexibility in terms of credit extension, noting that consumers had been struggling to make ends meet because food prices remained high and petrol ones were increasing. While no concrete solutions were found, business and labor representatives said that the banks had been approachable in some cases. Other proposals included a review of UIF rules.

Ahead of the NEDLAC summit held on September 12, 2009, business and labor leaders expressed optimism that the summit would embody the government's commitment to dealing with current economic challenges, including high food prices, the proposed electricity price hike and issues of climate change. COSATU Deputy Secretary General Bheki Ntsalintshali reportedly said that what was expected from the summit was to make some progress in terms of the framework responses that the country had adopted. Business representatives also said that they felt that the existing type of co-operation should be encouraged and built upon and that the summit should go beyond dealing with the economic crisis. Some also predicted that the summit would help boost confidence in the economy.

The political life of South Africa's adolescent democracy and its political leadership faced tough times in the run-up to the crisis. Before the crisis, an energy (electricity load shedding) crisis had hit, and this was quickly followed by increasing petrol prices and high inflation figures, which resulted in a continual hiking up of interest rates and high food prices. As a result, a number of industries were operating at half their capacity, and job losses were imminent. The year continued to present more challenges, including a resurgence of xenophobic attacks and a number of political developments in the aftermath of the Polokwane, including the recall of the sitting President Thabo Mbeki by the ruling party. At about this time, an ANC splinter party was formed by disenfranchised members who did not agree with the direction the ruling party was taking. The Government Performance Barometer, a biannual study conducted by Ipsos Markinor, reported on its assessment of government performance prior to the 2009 elections that 42 percent of people surveyed thought the government was going in the wrong direction, while 38 percent said it was going in the right direction.[44] In comparison, the version of the survey from May 2008 had yielded figures of 34 percent and 46 percent, respectively. This marked the first time since the Government Performance Barometer started being conducted nationally, in the mid-90s, that more adult South Africans felt that the country was going in the wrong, rather than the right, direction.

The general elections held in April 2009 also mirrored this result. A post-election response by the Institute for Democracy in Africa (IDASA) showed that, although actual voters increased by 11.47 percent between 2004 and

[44] The full results can be found online at http://ipsos-markinor.co.za/news/an-assessment-of-government-performance-prior-to-the-2009-general-elections (accessed January 10, 2010).

2009, the ANC vote only increased by 6.61 percent.[45] The report also noted that, despite early indications that the ANC might attain a two-thirds majority, the party fell just short of this coveted target, winning just 65.9 percent. For the first time since 1994, the party's share of the national vote also declined, and it suffered a loss of minus 3.79 percent from the 69.69 percent it won in 2004. Although the issues of fuel, food and energy crises had somehow abated, the political storm continued to brew after the elections, and there were widespread service delivery protests across the country. From the statements of the key protagonists, it is clear that people are tired of the ruling party's unmet promises and that there is no end in sight to this trend as the backlogs are severe. There are ongoing rifts and shifts within the ruling party, and persons seen to be more capable of responding have been deployed and redeployed. Likewise, Tito Mboweni, the former governor of the central bank, has been seen as the one who failed to exercise effective leadership at the outbreak of the crisis and who continued to arrogantly implement the inflation-targeting regime before being forced out of his position.[46] Others, such as former Finance Minister Trevor Manuel, have been promoted and redeployed to the Presidency in order to take charge of economic planning.

Indications are that the future is uncertain in terms of the short-term effectiveness of the response to the crisis, as has been ably demonstrated by major economic performance indicators and the increasingly volatile political situation at the township level. Revised forecasts of real GDP growth show that the South African economy will shrink by as much as 1.9 percent in 2009, while total employment declined by 3.5 percent between the fourth quarter of 2008 and the second quarter of 2009, compared with annual growth in employment of 2.4 percent between 2002 and 2008. Moreover, estimates hold that, in addition to job losses, the number of people who are no longer actively seeking employment grew by about 409,000 between December 2008 and June 2009.[47] Real GDP growth for 2009 had been forecast at 1.2 percent in February in the 2009 budget. Similarly, budget deficit figures for 2009 have been revised, from the 3.9 percent of GDP announced in the 2009 budget to 7.6 percent of GDP. Furthermore, final household consumption is expected to shrink by 3.1 percent in 2009 and increase by 0.9 percent in 2010, while final government consumption will increase to 5.4 percent and

[45] IDASA 2009 Post-Election Response
http://www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=2538
(accessed January 10, 2010).
[46] See comments by former President Thabo Mbeki at
http://www.engineeringnews.co.za/article/mboweni-failed-to-see-global-finance-crisis-coming-mbeki-2009-09-23-1 (accessed January 10, 2010)
[47] National Treasury, *Medium Term Budget Policy Statement*, October 27, 2009,
http://www.treasury.gov.za/documents/mtbps/2009/mtbps/National%20Treasury%20Medium%20Term%20Budget%20Policy.pdf (accessed November 30, 2009).

4.7 percent in 2009 and 2010, respectively. The outlook for inflation is somewhat negative, with the latest forecasts for 2009 at 7.1 percent, and the fact that inflation is expected to return to within the target range of 3 percent to 6 percent in 2012 is more depressing. At the moment, although inflation is fast approaching the 6 percent upper limit, pending electricity tariff hikes, of about 45 percent, have dampened the inflation expectations going forward. Imports and exports are expected to shrink by 19.8 percent and 20.3 percent, respectively, in 2009 and grow slightly by 3.8 percent and 4.2 percent, respectively, in 2010 as the economy recovers. There is public dissatisfaction with the poor quality of service provision, high levels of wasteful expenditure and government inefficiency.[48]

Structural distortions

- Is there early evidence that the structure of the economy will change (e.g., greater role of the state, changes in sectoral shares in GDP)?
- Could old structural imbalances be aggravated? Can we already identify new structural imbalances? Have previously existing imbalances been tackled?

According to the 2009 IMF Article IV Consultations report, when the IMF's Global Integrated Monetary and Fiscal Model was used to simulate the dynamics of South Africa's economy under a package of already adopted or announced fiscal and monetary policies aimed at countering the negative external demand and commodity price shocks brought on by the global crisis, it was found that these policies would raise output and employment by about two percentage points, at the expense of higher inflation (by about two percentage points), a higher trade deficit (by about 0.5 percentage points of GDP) and a mild crowding out of private investment relative to the counterfactual absence of discretionary policies. However, the report also warned that these results cannot be extrapolated for a fiscal expansion larger than is currently planned, as that would lead to rising real interest rates, which would diminish and eventually eliminate output and employment gains.

[48] The Presidency, *Development Indicators 2009*, http://www.thepresidency.gov.za/learning/me/indicators/2009/indicators.pdf (accessed January 10, 2010).

8. Concluding Remarks

South Africa did not steer clear of the detrimental consequences of the global financial crisis, which pushed it into its first recession in 17 years and caused the economy to experience persistent decline. After enjoying five years of impressive GDP growth (over 5% annually), the growth rate decelerated to 3.1 percent in 2008, with a contraction of 1.8 percent in the fourth quarter. Declining commodity prices and lower growth in major trading partners lowered demand for South African exports. Employment decreased for the first time in almost four years in the final quarter of 2008, when employment levels declined by 0.7 percent and the private sector shed over 45,000 jobs. Slowing economic growth also put pressure on government revenues and reduced the fiscal space for increased expenditure. However, although they did not completely eliminate the country's exposure to the international downturn, South Africa's sound fiscal and monetary policies have mitigated its negative effects.

More recently, the global economy has profited from a synchronized policy response to the economic crisis. A series of extraordinary fiscal and monetary measures has helped stabilize the global economy, but a steep and rough road lies ahead in terms of raising employment levels and living standards. In line with international forecasts, South Africa has projected that its economic recovery will be gradual. GDP growth of 1.5 percent is projected for 2010, and growth is only expected to breach the 3 percent level in 2012. The magnitude of South Africa's fiscal adjustment to the crisis has been among the biggest in the world, with the budget balance shifting from a deficit of 1 percent in 2008-09 to an expected deficit of about 7.6 percent in 2009-10. There is growing evidence that South Africa's economy turned the corner during the third quarter of 2009 in response to improving global conditions, expansionary fiscal and monetary policies, lower inflation and resilient commodity prices. The composite index of leading business cycle indicators has displayed a gradual upward trend since reaching its lowest point, in March 2009. Capacity utilization by large manufacturers has bottomed out, and forward-looking indicators of expectations in the Purchasing Managers Index (PMI) are also more positive. The government and the reserve bank have adjusted fiscal and monetary policies to support domestic demand, while public expenditure on key social priorities and infrastructure investment has been maintained. The recovery will strengthen as business confidence improves, employment stabilizes and household incomes start to rise. Much of the present policy stimulus is temporary in nature, and it remains to be seen whether enough has been done to facilitate a lasting recovery. For the recovery to take hold, it will require rising real incomes, increasing equity prices, cheaper credit and more stable house prices, which can outweigh high levels of indebtedness and weak labor markets.

There is a general consensus that prudent supervision and regulation of the financial services sector cushioned South Africa from the negative effects of the crisis. However, the country needs to consolidate this conservative trend by ensuring tougher regulation for financial innovation as developments point at more innovation as the local financial sector deepens. The ongoing search for yield and short-term profits by investors and perverse incentive schemes were some of the factors that contributed to the development of excessive financial innovation.[49] There is also a need to improve liquidity risk management at the service industry level by ensuring that appropriately trained and qualified officials carry out this function. At the policy level, improvements in macro-prudential analysis and regulation are required in order to create an environment in which it is possible to detect downside risk early and take the appropriate countermeasures in a timely fashion. Since crisis management and preparedness capacity will also be required for any future occurrence, a multi-stakeholder strategy needs to be put in place.

Authorities have praised the efforts to deal with the crisis through the Presidential Economic Joint Working Group convened by NEDLAC as demonstrating high levels of awareness and willingness to cooperate. Also worth noting is how community representatives were included in this series of negotiations. However, in this case, NEDLAC remains a quasi-governmental institution vested with a public function, which limits the scope and pace of its response to the crisis because decisions are made elsewhere. From available sources, it is unclear how this structure sought to consult with civil society beyond its representation at NEDLAC. NEDLAC has not clearly communicated to the average citizen what is happening and which coping mechanisms can be employed in order to lessen the impact of the crisis and what progress has been made in terms of negotiations with the numerous stakeholders. To date, since clarity in terms of the available quantities, progress and procedures for accessing interventions are not publicly available, citizens have not known what recourse they have. The introduction of countercyclical measures remains one of the issues on the agenda and such should go beyond discussions between members of the framework response team and the CEOs of major banks to a more structured approach from the side of regulators.

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[49] South African Reserve Bank, *Financial Stability Review*, March 2009, http://www.reservebank.co.za/ (accessed November 30, 2009).

The absence of a response strategy coordinated at the regional level and the apparent naiveté on the part of SADC leadership are causes for concern in terms of the ongoing work on regional convergence and issues of establishing a regional monetary union. The economic crisis presented itself as one of those opportunities during which regional cooperation could have been easily invoked in order to prevent the collateral impact of the crisis from spreading and reversing what little has been achieved in terms of developing the region's economies, institutions and infrastructure. Also worth noting is the relative incapacity of the region's weaker and smaller states to respond, who would have otherwise benefited immensely from the capacity and leadership of powerhouses like South Africa in a coordinated regional response. However, in this context, one should also hasten to state that, in the cases of Lesotho, Namibia, South Africa and Swaziland, this could have been achieved to a certain degree through coordinated policies facilitated by the Common Monetary Area arrangement.

The 2009 MTBPS conceded the need to review the projected budget deficit for 2009-10 of 3.8 percent of GDP to 7.6 percent of GDP. Similarly, the real GDP growth forecasts have been revised downward to a contraction of 1.9 percent in 2009-10 and 1.5 percent in 2010-11, in contrast to their previous positions at 1.2 percent and 3 percent. This tends to cast doubts on the credibility of forecasts by the National Treasury. Macroeconomic management is at the heart of the government's role as an insurer of last resort. For this reason, the appropriate institutions and structures must develop and maintain credible forecasting tools if economic management is to make a significant contribution to the development affairs of the nation state. Such capacity should reside at the National Treasury, which should prevent scenarios like the current one: Government spending plans were made on the basis of erroneous forecasts, which has led to a situation that could reverse what has been achieved over the past 15 years in terms of debt management and prudent fiscal and monetary policy management. Thought has to be given to potential financial safety nets for those citizens and businesses that find themselves in the unfortunate position of having to face the full brunt of these harsh economic conditions in order to save homes, businesses, jobs and livelihoods.

Study Context

The Bertelsmann Stiftung has a long tradition of assessing the quality of governance and devising evidence-based policy strategies for decision makers.

The **Transformation Index (BTI)** monitors political management, democratic quality and economic development around the world. The BTI encompasses all 128 developing nations and countries in transition that have a population of more than two million inhabitants, and have not yet attained fully consolidated democracy and a developed market economy.

The **Sustainable Governance Indicators (SGI)** offer a complementary focus on the OECD member states. The SGI evaluate the sustainability of political action in 15 different policy fields (from economy, labor, and education to environment, research and development), the quality of democracy and questions of strategic management capability in each of the 31 OECD countries.

The study *Managing the Crisis* is a joint initiative of the two projects.

BTI Contact

Sabine Donner, Hauke Hartmann
Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
www.bertelsmann-transformation-index.de/en

SGI Contact

Thorsten Hellmann, Andrea Kuhn,
Daniel Schraad-Tischler
Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
www.sgi-network.de