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South African Economic Woes: Poor Political Leadership and Rating Downgrades Hampers Growth and Development

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ABSTRACT:
Purpose: The paper aims to focus on South Africa's poor economic performance and the regular downgrades of the country's economic and financial rating by international rating agencies. It attempts to show that these continuous downgrades are a recipe for economic and financial disaster in the long – run; that the continuance of this phenomenon will stymie the implementation of the National Development Plan (NDP) and the securing of the much desired developmental state. A host of other important and necessary issues will be raised that pertain to the economic woes of South Africa.
Research Method: The classical research design is not followed. A range of economic and financial issues amidst other salient issues are analyzed by the researchers. In so doing South African newspapers and its media including the opinions of other writers will be utilized in formulating the thought processes of the researchers. This will allow for a clear delineation of the economic and financial woes that confront South Africa, under a so – called democratic state. The research method is therefore self – explanatory as captured above, and relies on articles that appeared in the South African media and invokes the critical analysis of the writers in terms of projecting on the issues raised in the title of the paper.
Findings: The findings are influenced by the thought processes of the researcher and the analysis made, by various writers as concerns these issues. The implications for South Africa and its people are immense. These findings are dispersed throughout the discussion undertaken in the paper. It also draws attention to the poor political leadership in South Africa, exhibited by the ruling party. It draws attention to the all embracing fact that a successful election win for the ruling African National Congress Government on May, 7 2014 is not a panacea for sound development nor will it promote the general welfare and the enhancement of the public good. It argues that if the economic and financial challenges and problems are not dealt with decisively, then poverty, unemployment and inequality will escalate and spiral out of control.
Originality Value: The paper draws attention to a number of vexing issues that require urgent attention by politicians and the South African bureaucracy to address the issues raised in this paper. The originality value underscores a host of issues as concerns the economic, financial and downgrade woes that generally are not addressed by the government in a proactive and sustainable manner.

Keywords: Economic *woes, Financial, Rating agencies, Analysis, Poverty, Inequality, Bureaucracy, Public good, Implications, Democratic state, Downgrades, Development*

INTRODUCTION

The downgrading of South Africa's economic outlook by Fitch, closely followed by a downgrade of the sovereign foreign currency rating by Standard and Poor (S and P), should serve as a warning to the country that, it needs to get its act together to restore investor

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confidence. The generally negative outlook for South Africa (SA) might hamper the ability of the economy, the state owned enterprises, the public and private sectors to raise capital abroad for a host of development issues. The excessive borrowing and the inability to narrow its debt could lead to very serious consequences for the South African economy and, will constrain infrastructure projects, because Marrs (2014) states that it will be a dismal prospect to raise R900 billion over the next three years. The dismal picture is exacerbated by the declining state of the economy under the ruling government. The government has to intervene quickly, given the all embracing fact that, it has been given a mandate to govern for another five years through victory in the general elections held on the 7 May, 2014. This victory means nothing, if it cannot deliver to the South African population, lead from the front and attack poverty, inequality, unemployment and promote the economy. On the other hand there has to be a rigorous implementation plan in respect of the NDP in spite of the criticisms against this plan, particularly by some trade unions. The private sector must also be placed in the forefront of the unemployment problems and be asked to deal with certain development issues and the promotion of the South African economy. South Africa is in an economic, financial and development crisis, given its debt burden, increasing borrowing, an expanding uncontrollable public service at all three levels of government, the increasing amounts paid out on social grants, (with these grants) and, the public sector wage and salary bills that are not sustainable in the long run, if the economy and the country's finances are not managed prudently and, in the interest of serving the poor, promoting the public good and enhancing the general welfare. All of this is further exacerbated by excessive corruption, political patronage and nepotism. All of these issues have contributed to the economic and financial burden of the South African state.

Downgraded to Nearly 'Junk' Status

The foreign debt rating of South Africa has been over the last several months been continuously downgraded by international rating agencies and, downward growth revisions have become a persistent pattern. In this regard Isa (2014) reports that "Standard and Poor's puts South Africa's foreign debt rating at just one notch above 'junk' status. This was done on the 13 June, 2014 as South Africa's sovereign credit rating was downgraded by a notch to BBB. Analysts warned that further downgrades were possible if sluggish economic growth reduced tax collection, making it harder for the country to cut debt and manage the budget deficit. Standard and Poor's decision was South Africa's first credit – rating downgrade in nearly two years, and puts its foreign debt rating at the lowest investment grade, just one notch above 'junk' status shunned by many investors."

Earlier on the 13 of June, Fitch Ratings stated that, it would not change its BBB rating, but would change the outlook to negative from stable, raising the risk of a downgrade from Fitch. Fitch (Isa, 2014) "cited the worsening growth outlook, rising government debt and high deficits on the current account, the broadest measure of the country's trade in goods and services." Credit ratings are important, as they help determine a country's cost of borrowing and influence investor appetite for its debt and equities. This affects how much capital flows into the country and the value of the rand as a currency on the international market. Worryingly, Isa (2014) states that "Standard and Poor and Fitch expressed lack of confidence in the government's ability to tackle the country's deeply rooted structural problems. Standard and poor indicated that, it did not believe the government would "manage to undertake major labor or other economic reforms that will significantly boost GDP growth. Fitch said that "it was disappointed by the new Cabinet and that the track record of some key ministerial appointments and short comings in administrative capacity mean this is subject to downside risk."

There is no doubt that the downgrade is a wake – up call for the government to speed up the implementation of the controversial National Development Plan (NDP), the long – term blueprint for faster economic growth, employment creation and poverty alleviation. The NDP remains largely stillborn with the ANC's alliance partners taking issue with elements of the plan. South Africa could still face further downgrades over the next 12 to 18 months, potentially losing investment grade status, in spite of the South African Treasury pointing out that the NDP and its detailed programs was far advanced, but analysts in general remain skeptical. Standard and Poor (Isa, 2014) stated that “it would and could lower its ratings again if the country’s business and investment climate weakens further; for instance if labor disputes fester, which saw a five month strike in the platinum belt, which saw the country lose about $29 billion dollars over this period. Fitch said that “persistently weak GDP growth and failure to boost growth potential through reforms were factors that could prompt a downgrade.” South Africa’s lower credit rating from S and P still puts it on par with three of its peers in the Brics group of five developing countries. Brazil, India, Russia all have ratings of BBB -, and only Brazil has a stable outlook. Fitch has also given South Africa a stable outlook. Comparisons with Brics countries must be benchmarked against the fact that these countries are economies of scale and their growth rates are higher and, the fact that Russia has serious problems in Crimea and the Ukraine. On the other hand Moody’s has given South Africa a rating one notch above Fitch and two notches above S and P, but with a negative outlook. Traditionally, Moody’s has been the most optimistic of the three agencies, but it is likely that it will downgrade also this year.

Although South Africa’s fiscal stance has held up so far, it could become exposed in the years ahead because of low economic growth, public sector pay hikes and increased public spending. This would mean that fiscal targets will become difficult and out of reach. Budget deficits will have to be addressed by the government. Unforeseeable cyclical factors such as the prolonged strike in parts of the platinum sector (now resolved) would have serious economic impacts with the possibility of job losses as mining houses begin to mechanize. The government therefore cannot deviate materially from the long – term fiscal consolidation path that is essential. However, Fitch (Isa, 2014) warned that “it would be challenging to cut the budget deficit to below 3 percent of GDP by 2016 / 2017 and this would be dependent on South Africa’s economic recovery and whether it could control spending limits. It predicts that the budget shortfall would slip to 4.2 percent of GDP in 2014 / 2015.” More worrying is the reality that rating agencies lowered their growth forecasts for South Africa. Growth rate was depressed below 2 percent this year and will only improve marginally over the next two years.

All of this points to the depressing reality that increased strike action, service delivery protests, the expansion of the public service and a host of other economic variables point to a downward growth revision which has become a persistent pattern, which makes the economy susceptible to shocks and weaker growth. Graph 1 below shows the downgrade in terms of the Rand against the United States Dollar. Also show below in graph 2 is Fitch and Standard and Poor ratings which indicate the hammering of the South African Rand and South Africa’s credit ratings index. During the time of the release of South Africa’s downgrade status the South African Rand fell to R10.80 against the US dollar and has only marginally improved since then hovering between R10.60 to R10.70 to the US dollar. Figure 1 below shows the downgraded South African economy. Figure 2 Shows South Africa’s Credit ratings index.

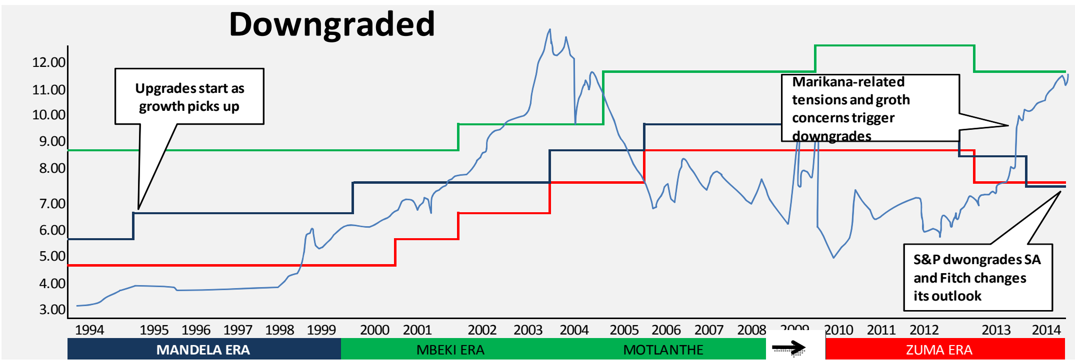

Figure 1: Downgraded
Source: Matthys Moss- Sunday Times, June 15, 2014

Fitch, S&P Ratings hammer the rand

Credit ratings index

SA's current rating

INVESTMENT GRADE		
Moody's	**S&P**	**Fitch**
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa1	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	**BBB-**	BBB
Baa3	BBB-	BBB-
SPECULATIVE GRADE		
Moody's	**S&P**	**Fitch**
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C+,C,C-	C+,C,C-
	D	D

Figure 2: South Africa's credit ratings index (Moody's, Fitch and standard and poor ratings)
Source: City Press. June 15, 2014

Downgrades a Call for Action

The South African Treasury which falls under the Ministry of Finance came out fighting after rating agencies, placed a negative outlook watch. (by both Standard and Poor and Fitch). The rating agencies cited concern about labor unrest, the low growth path, its fiscal and current account deficits, and its external vulnerability, as reasons for their decisions. The Business Day editorial (2014) reported that the "Treasury countered by pointing out that South Africa's ability to repay its debts was not in question, though it acknowledged the issues and was not complacent. South Africa, it said remains in a strong position to meet its obligations to foreign and local investors in its bonds." The government seems to be playing to the international gallery and further appears to want to please and appease its citizens, when it clearly has abused and continues to abuse public funds in ways that are unacceptable, does not have a concerted plan to stem corruption and, continues with impunity to breach austerity measures. In this regard politicians are the main culprits coupled with an inept public service and a bureaucracy that is out of tune with regards the reality of the economic recession that is now hurting South Africa. This is exacerbated by political unrest, increase in the number of strikes and service delivery protests and exemplified by increasing levels of poverty, inequality and unemployment which has gone on for a protracted period of time, and to this end there is no policy direction to overcome these manifest problems.

Foreign debt makes up less than 10 percent of the government's total debt. South Africa, according to government sources has sufficient foreign reserves to repay outstanding foreign loans in the medium term. Such statements by government misses the point of fiscal prudence and such talk paints a picture of the economy and country that is in a serious economic crisis, in wanting to justify its mismanagement of tax payers money by introducing the issue of its reserves, in order to bail it out from its inefficiencies, poor policies and a disregard of the rights of South Africans. When a country begins to indicate that it can buy back debt by means of using reserves and wanting to take advantage of liquid domestic capital markets that can buy debt, will be a move in the wrong direction because it will erode foreign investor confidence. Such talk on the part of government assumes a misguided confidence and leads one to feel and, therefore, state that there is something very wrong in the state of South Africa. In other words the rating agencies are of the opinion that the South African state is simply not up to the task of remedying South Africa's profound economic ills. Both agencies point to the urgent need for South Africa to effect structural reforms, in order to raise its growth rate, and that they do not believe it will manage to undertake major labor or other economic reforms that will significantly boost GDP growth. The danger lies in the reality that, South Africa could very soon be relegated to junk – bond status, if more strikes, damage to the investment climate and the lackluster economic growth, could open the door for further downgrades, thus making it much more difficult and expensive for the government and corporate borrowers to raise capital on local and international markets. South Africa cannot afford this and therefore, the government must heed the advice of the rating agencies and grab and take the opportunity to position itself as a government able to act and to implement growth – boosting reforms.

Continued Strikes Could Destroy the South African Economy

The South African Broadcasting Corporation, an arm of the state, announced on the first of July 2014, that "the National Union of Metal Workers of South Africa (NUMSA) will embark on an indefinite strike beginning on the first of July. The union is supported by the Congress of South African Trade Unions (Cosatu), and it is, expected that 250 thousand workers affiliated to NUMSA will go on strike demanding a 12 percent wage rise, the abolition of labor brokers and a one year bargaining agreement. This is the largest union affiliated to Cosatu, which has been at odds with the government and did not lend its support to the government in the May 7 national elections." The strike according to commentators, if successful will hamper the manufacturing industry of the country and other sectors of the economy. The country having come out of a 5 month protracted strike by mine workers in the platinum industry is reeling and this strike has damaged the economy of South Africa, so much so that, it led to the downgrade of the economy by international rating agencies. Another strike will almost, most certainly lead to another downgrade of the economy. This is exacerbated by the rise in petrol and diesel prices which will lead to further burdens on the economy and the consumer, because transport costs will rise, consumer borrowing will go out of hand, food prices will rise and the possibility of a recessionary South African climate looms high.

By the same token, it has to be realized that transport costs and fuel prices together with other economic variables are not included in the calculation of Gross Domestic Product. This compromises the South African consumer and the population at large and, does not augur well for the South African economy, the country's stability, and the Rand / Dollar exchange rate and there is now a distinct possibility of a further downgrade of the economy if the latest strike continues for a protracted period of time. The government and industry has to intervene quickly to avoid further fracture of the economy with the distinct possibility of rising unemployment, increasing poverty and inequality. The situation for South Africa looks bleak at the moment. It all points to poor government leadership, its inability to manage the economy and its inability to construct a meaningful plan to take South Africa out of this dangerous quagmire.

The economy is moving towards a possibility of being further downgraded and accorded "Junk" status by the rating agencies. Another serious problem is the government's announcement in the State of the Nation Address by the President in the middle of July, 2014 outlining the massive injection of capital on infrastructure programs that will run into billions of Rands over the next several years. This program will have to be financed and raises the possibilities of raising the money through borrowing from international agencies and lending institutions. This will most certainly lead to large deficits which have to be serviced. All of this points to the economic woes of South Africa, poor governance and a lack of government accountability. It can therefore be assumed with some certainty that the country will not attract Foreign Direct Investment (FDI), will become less and less attractive for investment and that inflation will rise beyond control further depressing the economy and the consumer. Given these scenarios South Africa, sits on the precipice of economic disaster, as the economy grinds to a slow but frightening halt with the governments projected growth rate of 2 percent becomes a pipe dream, as the economy contracted in the last quarter and grew at about 1.8 percent and this growth will be further hindered for the year in the months that lie ahead. Growth now skirts negative territory.

Metalworkers' pay deadlock has the potential to paralyze almost a third of the manufacturing sector of South Africa. This risks putting the economy in a very difficult predicament. Isa (2014) reports that "Moody's ratings agency issued a stern warning of the consequences of the strike by the National Union of Metalworkers of South Africa (Numsa). The ongoing strike leaves South Africa unable to take advantage of the recent pick – up in growth among its major trade partners, consigning it to a third year running of sub – par growth and posing risks for stabilizing its government debt metrics, a credit negative." Moody's remarks suggest it will certainly downgrade South Africa, given its negative outlook it already has on the country's sovereign credit rating. This also flags the fact that the fractious labor market is further weakening an economy already battling with tepid consumer demand, low business confidence and rising inflation, which is likely to trigger more interest – rate hikes. Isa (2014) further adds that "the Numsa strike could affect 10 500 companies in a range of industries, and threatens to shut down production and exports of iron and steel, cars and automotive parts, and consumer durables, with a potential daily cost of the strike to be R300 million. Manufacturing is basically in recession. The outcome will be based on how long the strike continues. Confidence within the manufacturing industry has been affected by the nearly 6 months long platinum strike which ended only two weeks ago. To make matters worse the treasury warned that the outcome of public sector pay negotiations due to start later this year was the most significant risk to government finances and the treasury has hinted that it may have to raise taxes if it has to spend more on public wages, which already accounts for 40 percent of official noninterest spending, almost double the emerging market average.” Clearly the bigger effect of the strikes in the long term is the impact on foreign investor confidence generally. The situation is indeed bleak for South Africa.

African National Congress (ANC) at Odds with State on Ratings

The downgrade of the South African economy by the rating agencies seems to have spooked the ruling ANC as a party, in spite of the fact that its party is the government. All of this points to the fact that, that the ruling party is at odds with its own government, because it has criticized the government for creating policy uncertainty which was undermining investment” (Marrian, 2014). This contradicts the government plan for radical economic transformation. Marrian (2014) states that “the ANC meeting urged government to take decisive actions to crowd – in private investment and speedily address uncertainties with respect to policy and regulatory framework that deter investment and continue its commitment to pursue countercyclical fiscal policy within a sustainable framework. This contradicts its own government and therefore creates confusion and with that comes policy confusion and uncertainty.” It has to be stated that the two centers of power, the ANC and the government are the key fault lines of the South African system today, because we have a cabinet that comes out and attacks the rating agencies and the other centre of power making the right noises and then m its own radical economic transformation policies. In reality the quality of the response to South Africa’s downgrade and its economic malaise is a cause for serious concern.

Table 1: World data release schedule: Business day. June 17

WORLD DATA RELEASE SCHEDULE

Day	Country	Reference	Statistic	Forecast	Previous
Tuesday	UK	May	Consumer price index (M/M)	0.2%	0.4%
	UK	May	Core Consumer price index (Y/Y)	1.7%	2.0%
	UK	May	Retail price index (M/M)	0.2%	0.4%
	Europe	Jun	ZEW survey (economic sentiment)		55.2%
	US		Federal Reserve policy meeting starts		
	US	May	Consumer price index (M/M)	0.2%	0.3%
	US	May	Consumer price index excluding food and energy (M/M)	0.2%	0.3%
	US	May	Housing starts (M/M)	-3.9%	13.2%
	US	May	Building permits (M/M)	0.1%	5.9%
Wednesday	**SA**	**May**	**Inflation rate (Y/Y)**	**5.7%**	**6.1%**
	SA	**May**	**Inflation rate (M/M)**	**0.8%**	**0.5%**
	SA	**First quarter**	**Current Account**	**R-192bn**	**R-179bn**
	SA	**Apr**	**Retail sales (M/M)**	**0.8%**	**-1.4%**
	SA	**Apr**	**Retail sales (Y/Y)**	**2.9%**	**1.0%**
	UK		Bank of England minutes		
	Europe	Apr	Construction output seasonally adjusted		-0.6%
	US	Jun	Federal Reserve policy meeting ends,make announcements on :		
	US	Jun	· quantitative easing pace	$35bn	$45bn
	US	Jun	· treasury purchases pace	$20bn	$25bn
	US	Jun	· mortgage-backed securities purchases pace	$15bn	$20bn
	US	Jun	· open market committee interest rate decision	0.25%	0.25%
Thursday	UK	May	Retail sales (M/M)	-0.5%	1.3%
	US	Jun	Initial jobless claims	314000	317000
	US	Jun	Continuing jobless claims	2600000	2614000
Friday	Europe	Jun	Consumer confidence	-6.5	-7.1

Source: TRADING ECONOMICS

Source: Trading economics. Business Day, June 17, 2014

Gloomier Picture of Ratings

There is no doubt that there is widening in the current account deficit to 6.1 percent of GDP from a shortfall of 5.1 percent in the fourth quarter of last year. The main reasons for this were a prolonged wage strike at platinum mines that dented mining exports. A weakening currency raises the local price of imported goods, which fuels inflation. Rising inflation then supports higher interest rates (Maswanganyi, 2014). A median consensus forecast of 13 economists for the consumer price index (CPI), which measures inflation, to have risen by 6. 5 percent year on year in May after increasing by 6. 1 percent year on year in April. This would be the second consecutive time that the index would have breached the government's 3 to 6 percent band. The effect of higher inflation and other factors such as high unemployment and high debt levels will reflect in the retail sales figures. The world data release schedule is reflected and shown table 1.

The key to economic revival is the narrowing in the current account deficit. This could provide some light amidst the gloom. Other economic data such as manufacturing and mining figures are pointing to weak economic growth for 2014, suggesting export volumes might not improve as quickly as anticipated. The economy also faces the challenges of electricity supply shortages and strikes. The rise of inflation is due to higher food and fuel costs. The Balance on Current Account and the Consumer Price Index are shown in figures 3 and 4 hereunder as follows:

Food Price Inflation Set to Peak

According to Nortje (2014) "prices have increased by more than what the official inflation figures would have South Africans believe. The main reason for the rise in inflation was a marked increase in the price of food. Food prices climbed at 9.1 percent year on year. The figures told a similar story in April, when the change in the consumer price index (CPI) came in slightly higher than forecast at 6.1 percent year on year, with food price rising at 7.8 percent year on year compared to 7 percent year on year in March." Then as now, some of the increase in food prices was attributed to retailers who had been finally forced to pass on some of the higher administered costs and labor costs they have been carrying. But a significant portion of the rise in food prices can also be attributed to a spike in maize prices, the failure of both subsistence and commercial agriculture, a decay of government intervention strategies to bolster food production due to a lack of monetary inputs and the dismal failure of extension services.

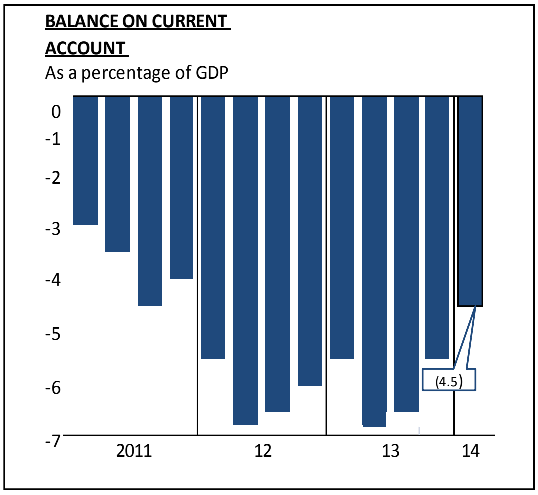

Figure 3: Balance on current account

Source: Reserve Bank of South Africa, 2014

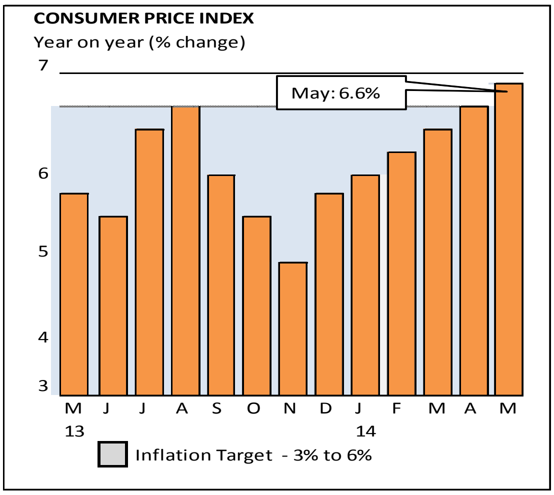

Figure 4: Consumer price index

Source: Stats South Africa, 2014

Nortje (2014) further points out that "the price of South African maize futures climbed more than 20 percent from December to January as a result of drought and very poor government intervention strategies throughout the nine provinces of the country, in respect to agricultural imperatives. This was also due to falling maize stockpiles, forcing the country to import at higher prices essential food commodities. The price of white maize climbed to an unheard of R3 155 per tonne in late January, the highest price since trading began in 1996, while the price of yellow maize kept rallying to a record high of around R3 500, a tonne in March." According to Citi economist Gina Schoeman (Nortje, 2014) "the January maize price spike was sharp enough for analysts to expect food inflation to rise significantly this year."

However, the rapid retreat of prices in the face of bumper crop harvests in April and May could lessen its effects. The reason maize is so important in the economic and agricultural equation is that aside from white maize being a staple food in one form or another for the majority of South Africans, yellow maize is the primary input into the production of poultry, meat and dairy products. In light of this, the contribution of food inflation to CPI is likely to continue to rise over the next few months as the full effects of January and March's spike in maize prices keep trickling through. Citi (Nortje, 2014) expects food price inflation to peak at about 9. 9 percent in August of 2014, as opposed to reaching an upper turning point in November and December of 2014."

If there is any silver lining to the latest figures it is that core inflation, which excludes volatile prices like food and petrol, remains month at 5.5 percent. Many analysts had been

South Africa scored 57. 9 out of 100 index points on affordability, a decrease of 2.9 index points from last year. The scores of Botswana, Uganda and Cote d'Ivoire have been steadily rising and South Africa for obvious reasons is still ranked highest in sub – Saharan Region. This is no special feat. For example, South Africa's affordability scores respectively declined from 61 and 60.8 points in 2012 and last year." Reports indicate that Botswana's score increased and the most food insecure nation, the Democratic Republic of Congo, expecting that it too would creep up, to about 5. 6 percent year on year last month. The bad news is that most economists expect headline inflation to rise again in the months that lie ahead. It perhaps would be the peak of the inflation cycle, but there is no guarantee to this given the poor performance by the government and provided the economy does not experience any additional shocks which could be internal as well as external. The dollar price against the South African Rand currently including the high exchange rate between the Rand to the US dollar and the rising price of crude oil, does not add an cushion to inflation and the increasing cost of living in the developing economy of South Africa, exacerbated by a government that seems to be completely out of tune with the economic realities that confront the population of South Africa and does not have the political will to intervene decisively and steer the country into a direction of prosperity or economic stability.

South Africa and Food Indicators

Continuing the discussion in this paper, it is important to focus on a number of issues that South Africa's economic downgrade impacts negatively upon. The first issue amidst a host of others is South Africa's food indicators. Despite the fact that South Africa is a leader in food security on the continent of Africa, its food affordability indicators have declined consecutively for the past two years and this will be further exacerbated by the poor ratings afforded it by the international rating agencies. This will have a direct negative impact on both imports and exports of food and food commodities. According to Buthelezi (2014) "The DuPont – Economist Intelligence Unit's (EIU) Global Food Security Index, which was first published in 2012, showed that this year improved its food affordability indicator from 12.9 points in 2012 and 2013 to 16 this year. There is thus something very drastically wrong in South Africa. It's a reflection of South Africa's GDP per capita. If the economy is not growing, inflation is high, which is the case in South Africa, it's expensive and affordability is a category that will be affected. This is further affected by the downgrade by international rating agencies, a lack of a plan by government, the failing and falling agricultural production standards, exacerbated by a lack of monetary inputs to the subsistence sector and the lackluster performance of South Africa's extension services. This is compounded by corruption and nepotism that permeates the economy of South Africa.

South Africa's GDP per capita, the indicator of countries standards of living, had fallen by 1. 6 points when EIU compared this year's index to last years. "The country's food consumption as a share of household expenditure had worsened by 12.8 index points. The National Agricultural Marketing Council (Namc) food price monitor last month, Namibia, Zambia and South Africa had the highest food inflation in the year between April 2013 and April 2014. South Africa's food inflation was 7. 8 percent and this will get drastically worse and significantly above the consumer price index of 6.1 over that period" (Buthelezi, 2014). One of the biggest challenges confronting South African agriculture is the reality that commercial White farmers are either leaving agriculture because it is not profitable anymore, compounded by a lack of government support, unnecessary rhetoric by political parties compounding the fears of White farmers, who do not see a future, any longer in farming or are emigrating to more friendly countries in the region that value their expertise; and the failure of government's land redistribution policy, which has not allowed sizeable numbers of Black commercial farmers to enter farming. Another major issue is the lack of sound research and development, which was the pride of South African agriculture in the past and its investment into research and development when compared to its peer groups across the world. All of this is of very serious concern and must be laid bare at the feet of an ineffective and poor performing government. What has stopped South Africans from getting into Agribusinesses when there is so much potential? Where is the chain broken and where, how and when do we fix it? Government must lay the foundation, garner a plan, and provide the necessary leadership to revive agriculture. There can be no other intervention strategy.

Consumer Inflation – Rates Expected to Increase

It is not good news for South Africans as reported by Khuswayo and Magwaza (2014) state and report that "consumer inflation hit the market expectation of an annualized 6.6 percent rate last month from 6.1 percent in April, the highest in almost 5 years according to Stats South Africa data. This breached the Reserve Bank's 6 percent upper limit target for a second successive month. This would most certainly hike the rep rate and affect inflation further. Things are not looking good for South Africa and government rhetoric that all is well cannot be relied upon. Figure 5 below shows the CPI index numbers and year on year rates.

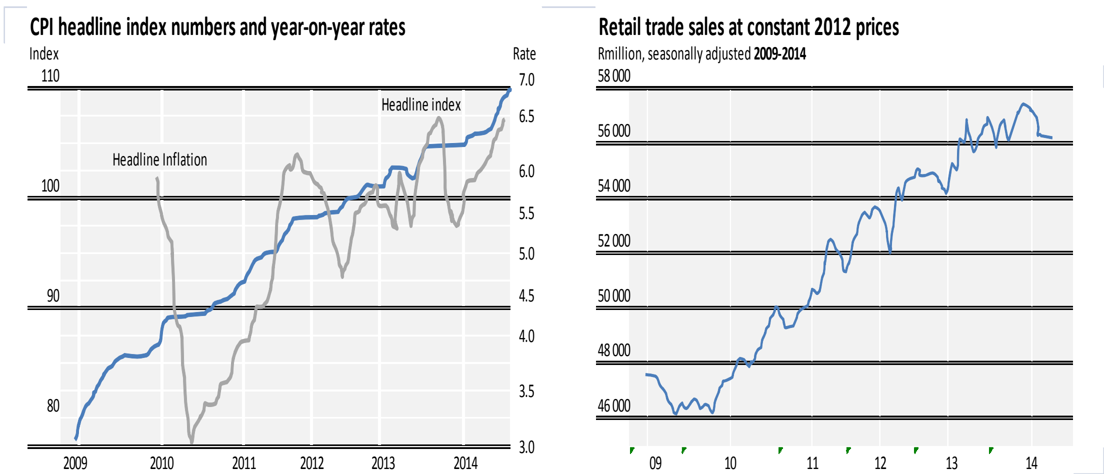

Figure 5: CPI headline index numbers and year – on - year rates are reflected hereunder

Source: Stats South Africa. June 19, Business Report, Retail trade sales at constant 2012 prices

Stagflation and the Reserve Bank

No one, no economist. No consumer and no nation, ever likes to hear the word stagflation. This is unfortunately the harsh reality facing the South African economy. The latest consumer price index inflation release is above 6 percent target limit, as outlined above and, GDP data has shown that the economy contracted by 0.6 percent in the first quarter. This is the worst position for a central banker, the consumer, the country and its economy. South Africa is almost in this position. Raising interest rates should contain inflation but at the real cost of throwing the economy into recession. This is bad news locally, regionally and internationally for South Africa. On the other hand, by cutting interest rates and stimulating the fragile South African consumer, the Reserve Bank should succeed in reviving the growth outlook, but at the greater cost of letting inflation spiral out of control.

The South African situation is volatile and how long it will last is a difficult question to answer. Why then, given that growth is so weak and given the large current account deficit is probably one reason that that the Reserve Bank as a temporary measure kept rates unchanged, seeking solace in the short term that as long as global liquidity remains elevated, GDP growth continues to recover fairly slowly and global inflation and volatility remain low, this trend can last for a few months longer, but certainly not forever. This is South Africa's precarious position. The Reserve Bank according to Els (2014) "has warned that in terms of monetary policy, the economy is in the middle of the rate – hiking cycle. Likewise, taking the lackluster growth situation in South Africa into account, it could be argued that a repo rate closer to 6.5 percent to 7 percent would be considered as neutral in this hiking cycle. Given South Africa's downgrades by international rating agencies, the poor performance by the government in dealing with corruption, unemployment, inequality and poverty, international capital flows and investment into South Africa have become erratic, creating immense pressures upon the country. Domestic recovery therefore remains fragile.

There is no doubt that the spectre of stagflation is striking the South African economy, with some economists stating that the country "is already in a stagflation trap. Stagflation is characterized by low economic growth, low domestic demand and rising inflation and economic growth has been drifting downward since 2010. This year the country's economy shrank by 0.6 percent in the first quarter and inflation broke through the bank's target band of 3 percent to 6 percent reaching 6. 6 percent for the month of May, well up from 6.1 percent in April. South Africa has been cutting interest rates for some time but growth has continued to drift down" (Donnelly, 2014). The current account deficit, usually associated with an economic boom is enormous and grew from 5. 2 percent of GDP in 2012 to 6.1 percent in 2013. The strain on the government's finances is another warning sign. Hart in Donnelley (2014) states that "Following the recession the government embarked on countercyclical spending to support the economy, increasing its expenditure and taking on more debt and given the current slowdown, the government could not sustain this by raising taxes. As households' finances were also in tatters."

It is obvious from all of this that the South African Reserve Bank is faced with a very difficult trade – off between growth and inflation. The pressure from inflation came from higher soft commodity prices and a weak rand forcing companies to increase prices in spite of weak demand. There is therefore, no doubt that the Reserve bank will hike interest rates this year. In attempt to get inflation back within the target range in order to maintain credibility. Given the government's appetite for spending and coupled with its propensity for corruption, it is doubtful if such measures will be of any assistance to the economy and the people of South Africa. In this regard Donnelley (2014) points out that "that a protracted strike in the manufacturing sector could "cripple" the economy. Although 220,000 people are on strike, 350 000 are not going to work because of lockouts – roughly 6 percent of the formal sector workforce and five times the number of people involved in the recent platinum strikes. The production loss is expected to be significant and, if the strike lasts, there will be a substantial amount of lost wages, which will have an impact on consumer spending and household balance sheets. This could also affect the banking sector.

The stagflation being experienced was unlikely to improve without a substantial upturn

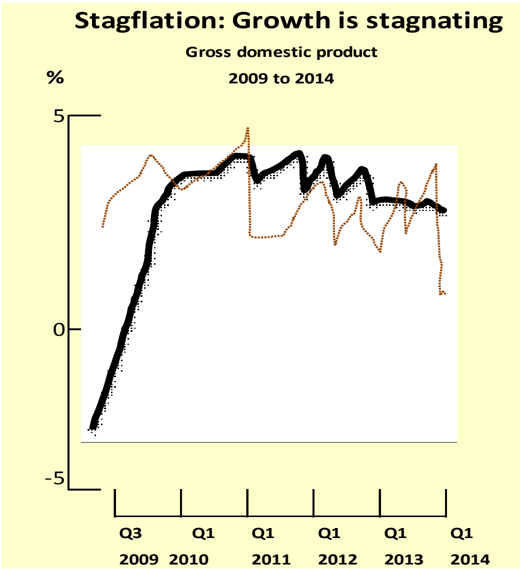

Figure 6: Stagflation: Growth is stagnating

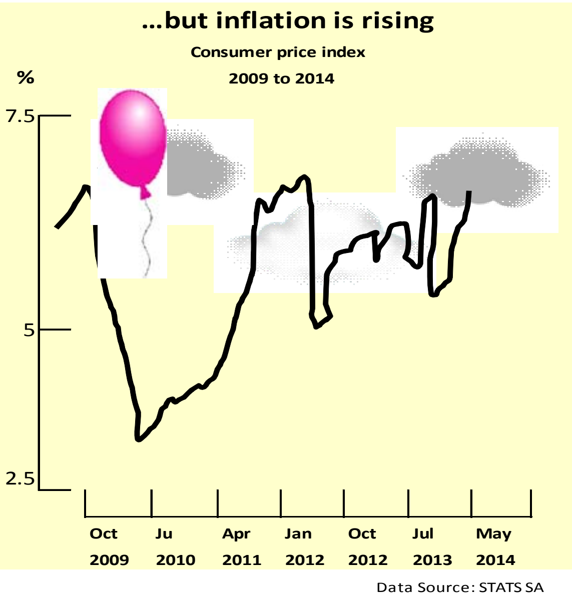

Figure 7: Stagflation: Inflation is rising

Source: Statistics South Africa, June 2014

in global demand but boosting local investment was needed alongside foreign investment. Figures 6 and 7 below show that growth is stagnating but inflation is rising.

Do The Experts Know Something We Don't?

It's hard to imagine what will change to prevent the economy from registering a second consecutive quarter of negative growth, and officially be in recession. The economic news in South Africa points to the reality that the country is in a serious risk of recession. According to Business Watch (2014) "The latest FNB / Bureau of Economic Research (BER) building confidence index, adds weight to this conclusion. Confidence in the building industry dropped 11 points on a 100 - point scale to 41. Other disappointing economic indicators point towards a further slowdown in the economy in terms of the business confidence index remaining low. New vehicle sales have been declining with a 10. 7 percent decline in April. South African households must hope and pray that the confident pronouncements of the Minister of Finance and the Reserve Bank Governor that the economy will not go into recession and perhaps they know something that others do not know.

Economic Leadership Required

It is astounding in South Africa, if one listens to the President and the government of the African National Congress (ANC) one could be forgiven for thinking that the government was the only agent of change. The rhetoric of the President and his Cabinet Ministers and the general bureaucracy is less about the state of the nation that it is about the state of government's involvement in the nation. The nation is far larger than government and therefore we as a country and a government must pay more attention to the people and their aspirations, in order to take the country forward. This has been the cardinal failure of the ruling party government that believes it has the right to lead because of its revolutionary credentials and therefore knows best what to do on the peoples behalf. It has therefore failed to understand and realize after 20 years in government that some of the most powerful economic leadership comes from below, and not from parliament. The President has spoken very little about the youth, who are in a state of flux, in a vacuum, unable to find jobs as youth unemployment soars out of control and many unable to finance their university education. This is a time bomb ready to explode. The government plays an important role in guiding the economy and rightfully so, but at the same time we must hold it accountable for its failures, together with other role – players.

Skills for Youth Essential Priority

Bongani Hans (2014) states that "Government announced to the youth that they will be empowered in various leadership skills and will be empowered in business and that it will ensure that government, local and international businesses would invest in this initiative." This initiative lacks a plan and does not address the manifest challenges, problems and so on by the government and is a reaction against the negative statements about poor government performance as concerns youth education and leadership are relegated to rhetoric, not aimed at their empowerment and is more hot air, according the Economic Freedom Fighters (EFF) that is the third largest political party in South Africa and a complete newcomer to the South African political landscape. There is much truth in the statements of the EFF. The government in 20 years of being in power has failed the youth, has not provided meaningful youth employment and has also not provided quality education.

The Economy Will Determine Our Future

The Question has to be asked according to Max du Preez (2014) "What's the use of an economic blueprint like the National Development Plan (NDP) if it's gathering dust on a shelf." This question is legitimate on the basis that it was approved by cabinet almost a year ago amidst opposition by certain quarters of the left and the majority of trade unions. James Carville (Preez, 2014) "during Bill Clinton's campaign in the US asked in a poster – it's the economy, Stupid. The phrase focused on a win for Clinton and he won." It is hoped that the South African government heeds the call in this phrase because the immediate future of the South African economy is what will determine whether the country remains a stable democracy or collapses by going on the skids. The South African government has the uncanny knack of rhetoric, promises, and threats, living on its past revolutionary credentials, diverting attention through cheer leaders on serious and prickly issues, in order to divert attention, matters no more because the time for posturing and ideological bickering is over in South Africa. South Africa is according to du Preez (2014) "is hovering on the edge of recession at a time that demands for better pay, more jobs, better lives, better services and a more equal society. GDP needs to be in the region of 6 percent or much higher to deal with all of these issues and problems. There is no doubt that South Africa is likely to see more strikes in 2014."

All of this is bad news for South Africa and potential investors and is a mammoth blow to our growth potential. It will make it harder and more expensive for the government to borrow money overseas. A firm commitment to bolster confidence and trust in the economy is now required both internally and externally. In other words a firm credible government decision to be more austere and to contain the growth of debt would be more than a good start. It is a leadership problem. The innovators in the President's cabinet are social democrats but the cabinet is heavily loaded with communists because the President requires them for his political survival. If the NDP has to be renegotiated it needs to be done soon and more mixed signals will further undermine confidence in the South African economy. Is it a question of change versus more of the same under the present government? Double talk, not dealing with corruption, the failure to deal with policy mismanagement and policy confusion, including the wastage of opportunities and most of all resources can only take South Africa, further down the slippery slope of more confusion, a free for all, greater cronyism and more instability.

No More Mantra's

The Presidents recent State of the Nation speech doled out the same mantra's of the past. His mantra's have not worked and do not work, spelling out the same "Faster economic growth, radical socio – economic transformation, far reaching interventions, decent work; the same rhetoric as the country slides into an abyss under his governments mismanagement of the economy" (Opinion, Mercury 2014). These mantras cannot alter the realities of a declining economy, massive unemployment, lamentable labor relations, appalling non – achievement in government at all levels, downgrades of the economy, strikes, violence and discontent throughout South African society. The inability of the government to create decent employment for those unemployed for protracted periods of time under its watch. The reason the economy is not flourishing is because there is no plan and an ideological fixation with radical socio – economic transformation, a bloated an inept public service at the three levels of central, provincial and local government. It requires efficiency not imported ideological frameworks, competent government employees drawn not on the basis of political affiliation but from the sum total of the population, efficiency and goal – oriented and achievable programs is what is required. The grandiose political and ideological objectives must be abandoned and must be capable of harnessing human potential and talents and energies of all South Africans, irrespective of race and color. A good start would be to purge government administration to curb abuse and to remove the ideological shackles that exist. A good start will be to end the mantras.

Accountability

Some of the promises made by South Africa's President in his State of the Nation Speech are improbable, like the achievement of a 5 percent annual growth target by 2019 when a slew of recent numbers point in the opposite direction. What the President does not seem to appreciate is that a significant part of the reason his government often fails to achieve its goals is a lack of accountability. This is exemplified by the choice of inept ministers to fill positions and some who have been retained in spite of their incompetence and very poor performances in the previous cabinet, during his second term of office. According to the Editorial Opinion (Business Day, 2014) "The executive will be reporting to Parliament that has become a rubber stamp, endorsing questionable decisions that have served to protect the wayward and unethical. It has become an expensive institution that, had the opposition not grown in number and impact, would have been little more than a crass display of the hegemony of voters has granted the African National Congress (ANC) in successive national elections. Until ANC Members of Parliament exercise their duties in service to the public rather than the headquarters of the ruling party, the Presidents wish list will not be fulfilled and will remain a pipe dream."

Under the President's tenure, various institutions mandated by the constitution to ensure accountability have been railroaded, raided and gutted, either for his personal protection or that of other ANC politicians. The National Prosecuting Authority, the South African Police Service (SAPS) and the intelligence services are all embroiled in controversies that are either linked to his name or to his party. They have thus fallen into disrepute and have progressively lost the confidence of the South African public. When the President speaks about the need to fight corruption without seeing the need to explain how this could be achieved when accountability is on the decline, his words have to be seen for what they really are: empty promises to an electorate by his and successive ANC governments over 20 - years of so – called democracy, he hopes that South Africans are sufficiently gullible not to see that he is pulling the same trick that has landed the country in trouble in the past.

The Business Day Editorial of 19June (2014) states that "Great legacies are not built through spectacular yet empty promises, but the ability to build institutions that instill confidence and inspire people to believe that the nation's dreams are indeed realizable. It appears thus far that the current President's legacy is in tatters and no amount of ANC propaganda will be in a position to redeem his stature and legacy among a thinking people because he has undermined the very institutions that were created and intended to safeguard the democratic inheritance of future generations and to keep their dreams alive." South Africans have had enough and the revolutionary credentials of the ANC will soon wane, people are hungry and tired, hopeless and desperate for hope, and it does not appear that the ANC is in a position to rekindle this loss hope. It sits on the precipice of disaster if the poor and the nation rise to take control. The ANC has to address this negative psyche that is building or in reality has built up. It only requires a fuse to ignite the patience of the South African people which has been fed a diet of lies and promises for too long and they are now fed up with it.

Unlike his predecessors the current President of South Africa is not an intellectual giant and has found it difficult to craft and deliver a coherent message because of the perceptions that surround him in terms of corruption associated with him, the indiscretions also associated with him. These perceptions are so ingrained in the minds of the public. He has to overcome this perception which is very difficult. It is a nightmare that will not easily go away and sooner or later South Africans and his own party will judge him harshly and perhaps the same fate of recalling the President, that met former President Thabo Mbeki, awaits the current President. If he cannot deal with the scandals that surround him, these scandals will be his only epitaph.

It is obvious given that South African democracy is in tatters post 1994 because accountability in reality never caught on amongst our so – called revolutionaries within the ANC. Accountability did not catch on because the ANC got consumed with wealth and could not follow the ideals of its past great leaders and, opened the door for membership to so many that do not understand the culture of revolution, dedication and service. There is just no accountability and this culture starts at the very top within South African politics and within its bureaucracy. There is so much conflict of interest within the body politic of South Africa. Conflicts of interest subvert the promise of democracy and undermine the legitimate expectations of the poor. Every citizen and comrade within and outside the ANC should be alert to recognize and expose the insidious culture of impunity within which they fester. If this is done according to the rule of law that calls for accountability and the consolidation of constitutional democracy, there will be hope, but as things stand at the moment, this hope has eroded and requires to be regained by the citizens of this country in the manner that the people stood up against the brutal apartheid system. Then only will the country be in a position to move in a correct direction, restore hope, bring about economic recovery, peace stability and deal with poverty, inequality and unemployment. A social revolution is now required.

RESULTS AND DISCUSSION

The paper has clearly shown that South Africa is confronted with very serious economic woes. These economic woes have resulted because of the poor management of the economy and that there is a very serious lack of accountability coupled with poor political leadership. This is exacerbated by massive corruption, nepotism, poverty, unemployment and inequality. These issues permeate both the public and private sectors of the country. Service delivery demands are unable to be met by the government of the day and strikes and labor unrest has become the order of the day. All of this has negative consequences upon the fragile South African economy. Government borrowing is increasing, debt is escalating and there is massive mismanagement of the economy. South Africa will not be in a position to manage the constant demands for increased wages by all sectors of the economy particularly the workers and this would dent the economy even further. The narrative clearly shows that South Africa has entered a period of stagflation with growth that has stagnated and inflation is rising to unmanageable proportions. It is thus obvious that there has to be a rapid turnaround of the economy in order to deal with rising unemployment, inequality and poverty.

It is imperative that the government puts into place a sustainable plan in respect to skills and training for the youth of the country. South Africa sits on the precipice of economic disaster, increased civil unrest and there is a distinct possibility that the country could be again economically downgraded by i9nternational rating agencies and, reduced to “junk” status. The time has come for the country to regroup because the economy will determine the future of all South Africans. The time for government mantras is over. There has to be less talk, greater accountability and more action to pull South Africa out of the doldrums. A clear economic strategy, sound leadership, decisive intervention to deal with corruption, the implementation of the National Development Plan and sound economic management is now called for. The ball is in the court of government.

CONCLUSION

Joel Netshitenzhe, the ANC think tank in the Thabo Mbeki government and grass roots intellectual states (2014) that "Politics aside, South Africans share aspirations for economic growth under legitimate leadership. A state that enjoys popular legitimacy and therefore, it is imperative that all leaders seriously work towards a social compact of common interests." The current government and its political leadership in reality have no legitimacy whatsoever. It has lived on its revolutionary credentials as though it is the only party that liberated South Africa. In spite of the fact that the ANC was voted into power again in the 5th democratic elections on the 7th of May, 2014, there has been a slight decline in its power base; in reality voters have given it their sympathy vote and have in the main voted on the basis of emotion rather than seeing what the party can deliver and, have not fully engaged on the ANC's performance over the last twenty years and particularly under the current party leadership. Democracy is maturing in South Africa and this maturity will soon reflect at the polls in the years that lie ahead and no party will be in a position to hoodwink the electorate of South Africa. The irony of the recent South African national elections is the reality that the ruling African National Congress lost ground among middle – class voters but not the poor. This trend of the poor supporting the ANC will soon change, if it fails to deliver essential services to the poor, which is the escalating reality at the moment.

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