Global Financial Crises and its Impact on the South African Economy: A Further Update

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ABSTRACT The period since the early 1980s has been characterized by extraordinary fluctuations in the prices of goods, foreign exchange, housing and shares resulting in four main financial crises. These are the Latin American crisis of the early 1980s; the Japanese crisis of the early 1990s; the East Asian crisis of mid-1997; and the global financial crisis of 2007-2008 and the subsequent Euro debt crisis. The global financial crisis has had a severe impact on South Africa. The economy went into recession in 2008/09 for the first time in 19 years. Nearly a million jobs were lost in 2009 alone and the unemployment rate continued to remain high with 25%. Economic growth has resumed a bit in the recent past, but the recovery is fragile, and another recession may be possible. Rising unemployment and poverty have placed greater demands on state resources even as revenues contracted, and there is mounting political pressure on government to review its economic policy. This paper examines the impact of the global financial crisis on South Africa, in particular on how the highly centralized federal system absorbed and responded to the crisis. This article aims to investigate the main factors that triggered recent global financial crises and its impact on the South African economy. An attempt is made in this paper to shed a light on global financial crises between 1980 and 2012 and provides a discussion on its impact on the South African economy.

INTRODUCTION

The period since the early 1980s has been characterized by extraordinary fluctuations in the prices of goods, foreign exchange, housing and shares resulting in four main financial crises. These are the Latin American crisis of the early 1980s; the Japanese crisis of the early 1990s; the East Asian crisis of mid-1997; and the global financial crisis of 2007-2008 and the subsequent Euro debt crisis (Kindleberger and Aliber 2011: 1). Previously, financial crises were associated with banking panics, sustained fall in the prices of asset and goods, insolvency of financial, or currency fluctuations (Kindleberger and Aliber 2011: 1). Previously, financial crises were associated with banking panics, sustained fall in the prices of asset and goods, insolvency of financial, or currency fluctuations (Kindleberger and Aliber 2011: 26-30) In recent times however, financial crises have been defined as the failure of financial markets to effectively channel funds to the most credit worthy firms and individuals due to worsening adverse selection and moral hazard problems resulting in an economic recession (Mishkin 1992: 7).

The recession that followed the 2007-2008 financial crises is perhaps the most severe and global since the great depression of the 1930s (Kindleberger and Aliber 2011: 1). The 2007-2008 crises which was primarily triggered by an unprecedented increase in credit supply and housing prices in the US soon spread to other major industrialised countries (McCarthy 2009:3). The outcome was a sharp decline in real economic activity in these countries which soon spread to other parts of the world (McCarthy 2009:4). For Sub-Saharan Africa (SSA) and in particular South-Africa, the mode of transmission was through capital flows and real investment, declining commodity export prices and a reduction in the volume of exports (McCarthy 2009:4).

Indeed, the most important development that took place in the wake of the banking crisis is the transmission of the crisis to the rest of the economy, resulting in a more general and deeper economic crisis. The critical issue here is the onset of recession. Economic problems emanating from recessions and crisis usually leave social and structural impacts on important sectors...
of the society. They affect living standards and constrain the requirements of people in those sectors. The social repercussions of the global financial crisis are also widespread and often lead to deterioration in the living standards of millions of people, especially in poor countries. The Food and Agricultural Organisation (FAO) has indicated that close to 1 billion people are affected by hunger. Also, the International Labour Organisation (ILO) has reported that more than 200 million people are unemployed. Even in countries or regions that have shown some signs of positive development, recovery from global financial crisis remains an enduring challenge. Many Asian nations have witnessed rapid growth and wealth creation in recent decades. This has led to enormous investment in Western countries, as well as increased foreign investment in Asia, mostly from the West. However, this crisis has shown that in an increasingly inter-connected world, there are always knock-on effects and, as a result, Asia had more exposure to problems stemming from the West. Asian products and services are also demanded worldwide, and a slowdown in wealthier countries means increased chances of a slowdown in Asia, resulting in job losses and associated problems such as social unrest. Persistent problems related to economic crisis include high unemployment, more debt and low growth in developed countries, as well as greater difficulties in having access to finance for developing countries. In addition, food prices in 2011 were volatile and nearly reached their 2008 peak, and millions of people in the Horn of Africa and in the Sahel region are in urgent need of assistance as a result of devastating drought, conflict and displacement.

The consequences and effects of the economic crisis have varied from one country to another and from one region to another, depending on a whole range of factors, including financial capabilities and demography. For instance, in the Arab world, these negative effects, along with other factors, have played a major role in the political events that have swept the region since 2010. In the first years of the economic crisis, some scholars argued that because of their weak integration with the rest of the global economy, African countries might not be affected by the crisis, at least initially. The International Monetary Fund (IMF) had predicted that growth in sub-Saharan Africa would come down to 1.5% in 2009, a figure that is far below the rate of population growth. Africa’s largest economy, namely South Africa, has entered into recession for the first time since 1992, due to a sharp decline in the key manufacturing and mining sectors.

Despite the fact that Africa currently has the world’s lowest shares of regional trade with less than 5% of the global trade and the substantial foreign direct investments FDI investment flows, there is a strong possibility that the imbalance in the capital flow in the last couple of years has affected the continent in terms of what it has been receiving from outside, in terms of both official development assistance (ODA) and foreign direct investments (FDIs). The IMF has promised more loans to the region, this time round with less stringent conditionalities, which in the past have been very detrimental to Africa. In the long run, it can be expected that FDI in Africa will go down as the credit squeeze takes hold. In spite of such a situation, African countries may face an increasing pressure for debt repayment. As the crisis gets deeper and the international institutions and Western banks that have lent money to Africa need to shore up their reserves, they could demand more debt repayments. This could, in turn, cause further cuts in social services such as health and education, which have already been reduced due to the impact of the crises and the dismal policies of the previous eras.

This paper aims to investigate the main factors that triggered recent global financial crises and their impact on the South African economy. The specific objectives of the paper are: to give an overview of global financial crises between 1980 and 2012; to investigate the causes and consequences of the 2007-2008 global financial crisis; and to discuss the impact of the 2007-2008 global financial crisis on the South African economy. The rest of this paper is organized as follows: Section 2 briefly describes the financial crises between 1980 and 2012 and examines the causes and consequences of the 2007-2008 global financial crisis on the South African economy. The rest of this paper is organized as follows: Section 2 briefly describes the financial crises between 1980 and 2012 and examines the causes and consequences of the 2007-2008 global financial crises. Section 3 studies the impact of the 2007-2008 financial crises on the South African economy. Section 5 concludes the paper.

A REVIEW UPDATE ON THE CAUSES OF FINANCIAL CRISSES

The ensuing sub-sections briefly describe these financial crises between 1980 and 2012 in
BUSINESS RELATIONSHIPS AS A DRIVER OF SUCCESS

In particular the 2007-2008 global financial crisis and the causes thereof as well as the impact on the world economy.

Financial Crises 1980-2012

The first major crisis in the early 1980s occurred when Mexico, Brazil, Argentina and other developing countries defaulted on US$ 800 billion worth of debt (Kindleberger and Aliber 2011: 1). Following the oil crisis between 1973 and 1974, a number of third world countries began to accumulate external debt mostly from multilateral organisations (Stambuli 1998: 3). However, as pressure from rapidly declining commodity prices, high interest rates, tight budgetary conditions and unstable balance of payments increased, these countries began to roll-over their long-term debt using short-term debt instruments (Stambuli 1998: 3). As a result, third world debt grew from US$ 130 billion in 1973 to about US$ 800 billion in the early 1980s (IMF 1984) in (Stambuli 1998: 3). In August 1982, Mexico announced its immediate delay on its external debt. By 1983 almost 21 countries had defaulted on their debt repayments resulting in massive debt crisis which sparked a deep economic recession.

The second wave which took place in early 1990s began in Japan and spread to the Scandinavian countries – Finland, Norway and Sweden (Kindleberger and Aliber 2011: 1). The third wave known as the Asian financial crisis began in mid-1997 started first in Thailand, Malaysia and Indonesia then spread to South Korea, Russia, Brazil and Argentina (Kindleberger and Aliber 2011: 1). The East Asian financial crisis was caused by massive capital flows into the financial systems of the East Asian countries and a rapid withdrawal of funds (Radelet and Sachs 2000: 105). The East Asian financial crisis resulted in largest financial bailouts before the 2007-2008 crisis and a large fall in real economic activity (Radelet and Sachs 2000: 105).


The following are some of the main factors that triggered the recent global financial crisis of 2007-2008:

Housing Bubble

A review of literature indicates that the primary cause of the 2007-2008 crisis was a combination of an unprecedented increase in credit supply and housing prices in the US economy (Kindleberger and Aliber 2011: 1). In the period between 2002 and 2007, the debt to national income ratio increased from 3.75:1 to 4.75:1 (Acharya and Richardson 2009: 196). In addition, as a result of the Federal Reserve’s monetary easing policies, the prices of houses grew to unsustainable levels at a rate of about 11 per cent per year (Jickling 2009: 2).

Asymmetric Information

Apart from the credit boom and housing bubble, there are other proximate factors that triggered the financial crisis. To start with, the asymmetry of information in the financial markets resulted in the problem of adverse selection and moral hazard (Mishkin 1992: 2-4). The former happens when potential borrowers with high default risk – the bad credit risks – are selected whereas the latter happens when the investor is exposed to the risk that the borrower might engage in activities that are undesirable (Mishkin 1992:2-4). Under conditions of abundant credit, low interests and relatively high housing prices, the standards of lending reduced such that a host of loans particularly subprime mortgage loans were issued to people with a very high default risk (Jickling 2009: 2). When the prices plummeted and loans defaulted, there was a substantial shock to the financial system.

Securitisation

Furthermore, securitisation of these mortgages – mortgage-backed securities (MBS) – resulted in unprecedented growth in credit. Securitisation grew from about US$ 767 billion in the last quarter of 2001 to a record high US$ 1.4 trillion in December 2006 (Acharya and Richardson 2009: 196). It eliminated the incentives of lenders to prudent especially when demand for these securitised loans grew rapidly following the creation of “AAA” rated securities which attracted a multitude of potential investors (Archarya and Richardson 2009: 196; Jickling 2009: 2). The imprudent issuance of asset-backed securities caused serious consequences throughout the global system when the asset-backed securities market collapsed (Jickling 2009: 2).

Off Balance Sheet Entities (OBSE)

Another contributing factor to the crisis was the conduct of the major financial institutions...
Instead of channelling risk from the lenders to the assets markets through securitisation, the banks which were highly leveraged became the primary investors (Acharya and Richardson 2009: 200). This was done so as to avoid meeting capital adequacy requirements (Acharya and Richardson 2009: 200). The banks evaded capital adequacy requirements by recording asset-backed securities in off balance sheet entities (OBSEs) (Acharya and Richardson 2009: 201). This allowed them to make more risky loans and increased the amount of risk concentrated in the LCFIs (Jicking 2009: 3). Towards the end of, Citigroup alone had accrued more than US$ 55 billion worth of AAA rated asset-backed securities (Acharya and Richardson 2009: 207).

Following the sharp decline in the value of the asset-backed securities and the subsequent losses in the second half of 2007, the banks were left with little choice but include those assets held in the OBSEs onto their balance sheets (Acharya and Richardson 2009: 207). When the financial crisis started only about 4.3 per cent of these loss where expected to remain with investors, the remaining loss accrued to banks. This led most banks to declare insolvency since they held less capital compared to their liabilities (Jicking 2009: 3). It also resulted in the collapse of a number of investment banks that had accumulated a lot of AAA ranked subprime mortgages for example the Union Bank of Switzerland (UBS), Fannie Mae, Freddie Mac, Bear Stearns and Lehman Brothers most of the investment banks (Acharya and Richardson 2009: 208). The failure of these institutions resulted in severe risk concerns that significantly reduced the operations of the capital markets and caused the worldwide recession (Acharya and Richardson 2009: 209).

Rating Agencies

The conduct of rating agencies also played a significant role in events that led to the crisis. Rating agencies rubber-stamped a host of subprime mortgage-backed securities as grade “AAA” resulting in a surge of demand for these securities which appealed to most many investors (Archarya and Richardson 2009: 196). Most scholars attributed the actions of the rating agencies to inefficient economic models, conflict of interest since some agencies where interested in generating incomes, and lack of effective regulation (Jicking 2009: 3). The over-reliance of financial markets on rating agencies reinforced by some laws and regulations that use ratings as a criterion for investments has also been cited as a potential factor leading to the crisis (Jicking 2009: 3).

OBSERVATIONS AND DISCUSSION

Regardless of concerted efforts by policy makers to restore stability, the global financial crisis that began in 2007 and gained momentum in 2008 caused a deep recession in the US, which spread to other major advanced economies and eventually to the rest of the world including SSA (Jicking 2009: 1). The failure of financial institutions and the capital markets in the major advanced economies resulted in a significant shrinkage in the supply of credit thus increasing the impact of the crisis on the real economy (Archarya and Richardson 2009: 196). Several banks, particularly the largest and most renowned in the world, had balance sheets filled with distressed assets resulting in insolvency and subsequently the need for recapitalization (McCarthy 2009: 10). Furthermore, investment banks witnessed a sharp fall in the value of the assets in which they had invested their customer’s savings (McCarthy 2009: 10). In addition, households that had accumulated unsustainable levels of debt in relation to their ability to service the debts also saw the rapid fall in their net worth (McCarthy 2009: 10).

A wave of panic throughout the financial markets resulted in massive cuts in consumer funding and a significant fall in the levels of investment as investors became more risk averse (McCarthy 2009: 10). In 2009, the economies of most industrialized countries entered into recession with global economic growth expected to be negative (McCarthy 2009: 10). In the US alone, the quarterly growth of industrial production fell continuously from about 0.5 per cent in the first quarter to −12.2 per cent in the fourth quarter. In the Euro area output fell from 0.7 per cent in the first quarter to −19.4 per cent in the fourth quarter whereas in Japan quarterly industrial output fell dramatically from −2.8 per cent to −39.9 per cent (McCarthy 2009: 11). Similarly, the growth in retail sales reflecting sharp cuts in consumer spending in the US fell from −1.7 per cent in the first quarter to −25.5 per cent in the fourth quarter (McCarthy 2009: 11). In the Euro area the fall
in growth of retail sales was somewhat moderate from –1.1 per cent in the first quarter to –3.9 per cent in the fourth quarter (McCarthy 2009: 11).

Impact of the Global Financial Crisis on South African Economy

Indeed, impact of the crisis was not only limited to the industrialised economies, but also developing countries and emerging market economies like South Africa, were adversely affected by the crisis (McCarthy 2009: 1). At the onset of the crisis, there was general consensus around the world that emerging economies would remain resilient to the effects of the crisis and would set the stage for global economic recovery (Lin et al. 2013: 7). However, as the crisis intensified none of the emerging economies were spared from its consequences (Lin et al. 2013: 7). As a result of its relatively high integration with the world economy combined with long-term structural problems in its economy, South Africa was adversely affected by the global economic crisis (Verick 2010: 4). This was largely through unprecedented capital outflows, cuts in real foreign investment and a reduction in the prices of and demand for export commodities particularly mineral exports (McCarthy 2009: 1). The following sub-sections highlights and discusses these impacts.

Impact on the Mining Sector

The South African economy since its modernisation has been largely dependent on the mining sector for its exports (Mohamed 2009: 4). Following the global financial crisis, South Africa became even more dependent on mining and capital intensive mineral sectors of the economy (Mohamed 2009:4). As a result of the financial crisis and subsequent tightening fiscal policies in the industrialised countries, the global demand for South Africa’s mining and mineral products declined substantially resulting in severe job losses and excess supply in the mining sector (Mohamed 2009: 3).

Towards the end of 2008, the price of platinum and gold fell dramatically to very low levels. The price of platinum fell from US$ 2 230 in the first quarter of March to about US$ 820 per ounce (Nyanjowa 2008: 1). Additionally the price of gold fell from about US$ 1 030 in the first quarter of 2008 to US$ 750 in the last quarter.

The sharp fall in the prices of mineral exports threatened to reduce the net profits of mines (Nyanjowa 2008: 1). The dry up of global credit, resulted in a reduction of investments in the mining sector (Nyanjowa 2008: 1).

Impact on Macroeconomic Performance

Investment

As a result of the global financial crisis, South Africa suffered substantial macroeconomic instability and subsequently vulnerability in the real economy (Padayachee 2009: 3). In the initial stages of the crisis, the flow of capital to South Africa reduced significantly resulting in tighter global and domestic credit markets. This significantly reduced the amount of credit available to the private sector and eventually led to a sharp fall in the services sector associated with debt-driven consumption expenditure, construction and automobiles and components (Mohamed 2009: 3).

Gross Domestic Product (GDP)

The country experienced a massive slump in economic growth; in 2008 GDP growth was expected to fall to –2.1 per cent (Verick 2010: 4). GDP growth rate fell to almost 1.8 per cent in the last quarter of 2008, then rose sharply to 6.4 per cent in the first quarter of 2009, and plummeted to –3.2 per cent in the second quarter of 2009 (Padayachee 2009: 4; ILO 2010: 1). Sharp declines in GDP of 7.4 per cent and 2.8 per cent followed in the first two quarters of 2009, putting the economy into recession for the first time in 17 years (ILO 2010: 1). This was mainly driven by a combination of a fall in output in the manufacturing industries of and fall in output of the mining, financial, real estate and business services, and wholesale and retail trade sectors (Mohamed 2009:3; Verick 2010: 4; National Treasury 2010: 13). Output from the manufacturing sector in the first quarter of 2009 fell by 6.8 per cent more than the decline in the last quarter of 2008 (Padayachee 2009: 4). In addition, mining output fell by almost 12.8 per cent between the last quarter of 2008 and the first quarter of 2009 (Padayachee 2009: 4).

According to a recent survey of the South Africa economy "the change in the growth rate of real GDP between 2008 and 2009 represented
the largest single-year slowdown on record for South Africa, and was larger than in most advanced and emerging economies, though far from being the worst” (OECD 2010: 22).

The main causes of the recession were related to trade and financial flows and a sharp reduction in consumer demand and private investment in the economy (OECD 2010: 22). South Africa is an upper middle income country whose economy is reliant on financial services and the export of manufactured goods and primary commodities (such as gold, platinum and chrome). Portfolio inflows also accounted for the bulk of the financing of the country’s large current account deficits in the years leading up to the crisis (OECD 2010: 22).

The effect of the global financial crisis was that commercial credit and consumer demand evaporated, export and import volumes plummeted and net financial inflows turned to net outflows, resulting in a sharp decline in share prices.

The manufacturing sector’s value add declined by 12.2 per cent in the first 9 months of 2009 due to sharp year on year declines in the output of the automotive industry (34 per cent), the furniture industry (20 per cent) and the textiles and clothing sector (14.6 per cent) (National Treasury 2010: 29). These declines in turn affected export volumes and thus the trade deficit. Growth recovered in late 2009, rising to 3.2 per cent in the fourth quarter (ILO 2010: 1) due to “a recovery in the global economy, higher commodity prices and sustained growth in government spending” (National Treasury 2010: 13). Despite the massive fall in GDP in 2009, the recession was much “shallower” than elsewhere because the country did not experience any major bank or firm failures, and the decline was offset by lower oil prices and strong growth in the construction industry (value add grew by 8.4 per cent in 2009) in preparation for the FIFA Soccer World Cup (OECD 2010: 25). The banking sector in South Africa was more resilient than in many other countries due to “banks strong profitability, low level of non-performing loans, comfortable capital cushions going into the downturn, and a lack of direct exposure to problem assets in the US and Europe” (OECD 2010: 26).

The economy is expected to grow at 2.3 per cent in 2010, largely due to the returns on investments in the World Cup and massive public sector investment in economic infrastructure, increasing to 3.6 per cent by 2012. These levels approximate levels of growth in 1996 when government introduced GEAR and are well below the 6 per cent needed to reduce poverty and unemployment by half.

**High Unemployment Rate**

The rate of unemployment in the country has remained at chronic or near-chronic levels since 1994. Reducing the high level of unemployment by stimulating job creation in the formal economy has been a cornerstone of public policy in all four governments since democracy. Indeed government had justified introducing the controversial macro-economic austerity strategy GEAR in 1996 on the grounds that it would lead to the 6 per cent growth rate that was needed to reduce unemployment by half by 2014. Achieving faster growth and job creation was also behind the Mbeki government’s Accelerated and Shared Growth Strategy which was introduced in 2006 to remove constraints to economic growth. Although unemployment has never fallen below 20 per cent, by early 2008 it had fallen to 21.9 per cent, before rising 2.4 points to 24.3 per cent in 2009 (ILO 2010: 1) and, with the loss of 171 000 jobs, had reached 25.2 per cent in the first quarter of 2010 (Isa 2010: 1).

New job creation also halved over the period as output and new investment contracted. The effects of higher unemployment and lower job creation were not borne by all sectors of the economy equally. The majority of the job losses were in the more labour intensive sectors of the economy (manufacturing, construction, trade and mining sectors), and hence the semi-skilled, unskilled and the youth sectors of the workforce bore the brunt of the recession: Of the 870 000 jobs lost in 2009, 527 000 were in the unskilled and semi-skilled categories, and youth unemployment (the 15-24 age group) declined by 13.6 per cent (219 000) with 48.3 per cent out of work (National Treasury 2010: 39). These sectors were disproportionately affected by the recession due to structural changes and distortions in the economy: a shift from primary to tertiary sectors and exports, a low skills base, and declining demand for unskilled labour.

Government’s budget review for 2010 described the impact the recession has had on employment in stark terms of about 7 per cent of
workers have lost their jobs. The short term impact added to already high levels of joblessness. When the number of people who have given up looking for work is included, the statistics are positively alarming: 6 in 10 South Africans are not working, and about half of all young people have never held a job". (National Treasury 2010: 5). The consequence of such high job losses have been felt by the most vulnerable – children. The global crisis interrupted the decline in child poverty and hunger, with the severest impact among the very poorest children (Financial and Fiscal Commission 2010: 26).

The global economic crisis resulted in a substantial increase in unemployment. In 2008, several businesses declared bankruptcies contributing to severe job losses (Mohamed 2009: 3; Verick 2010: 1). Approximately 484,000 employees lost their jobs in the third quarter of 2009 with the manufacturing sector being the largest source of unemployment (Padayachee 2009: 4). This pushed up the official unemployment rate to 24.5 per cent and total losses at the end of the third quarter of almost a million (Padayachee 2009: 4). This combined with almost 1.6 million displaced workers pushed the real unemployment rate to approximately 32 per cent (Padayachee 2009: 4).

Aside from the recession’s direct impact on employment and livelihoods, the social and political costs of massive unemployment particularly amongst the youth are incalculable. The risks of crime and social instability are greatly increased when 75 per cent of the unemployed population are below the age of 35. Since 1996 South Africa has experienced a spate of violent service delivery protests, mainly in the informal settlements surrounding major cities. In 2008/2009 the number of protests was the highest on record, suggesting that the economic impacts of the downturn are also fuelling public discontent and instability. Persistent and extremely high levels of unemployment and income inequality have also added to the tension within the ruling party alliance over macro-economic policy (Steytler and Powell 2010: 8).

**Youth Wage Subsidy**

High youth unemployment put the need to ensure faster youth employment at the centre of government’s response to the recession. To help “put young people to work” government will offer a tax rebate to employers to “lower the cost of hiring young people without experience” (Gordhan 2010: 10). Government estimates that about 800,000 people will qualify but the aim is to raise employment of young school-leavers by a further 500,000 by 2013 (Gordhan 2010: 10). As a tax concession, the programme is implemented at the national level.

**Budget Deficit and High Public Debt**

In the period between 2003 and 2008, the current account deficit as a percentage of GDP rose from approximately 1.1 per cent 5.8 per cent. In the first quarter of 2009, the proportion of the current account deficit rose to a staggering 7 per cent and to about 10 per cent in the second quarter (Padayachee 2009: 4). The tighter global credit conditions threatened the sustainability of the deficit which was previously financed through foreign capital inflows (Padayachee 2009: 4).

Besides, the global financial crisis effectively re-shaped the country’s fiscal framework because the budget went from a surplus of 1 per cent of GDP in 2007/08 to a deficit of 7.3 per cent in just two years (Gordhan 2010: 12). Although the 2010 budget did not envisage either major cuts in public expenditure or significant changes to tax policy, government revised its fiscal stance to increase the public debt in order to fund increased expenditure and offset the projected fall in revenue. As a consequence, public debt was projected to rise from 23 per cent of GDP in 2008/09 to about 40 per cent in 2013 (Gordhan 2010: 12). These increases were not a direct response to the crisis but rather reflected a counter-cyclical response focused on stimulating growth through increased public investment (OECD 2010: 29).

**Increase in Commodity Prices and Social Assistance**

As a result of rising commodity prices, inflation rose above the Reserve Bank’s target of between 3 to 6 per cent to about 9.9 per cent in 2008 (Padayachee 2004: 4). Stalled job creation, rising levels of unemployment and higher consumer inflation due to the recession have also led to an increase in public expenditure on the social wage as more people move from formal employment to dependence on state-provided
relief. Levels of poverty had declined from 50 per cent to 21 per cent between 2000 and 2008 (National Treasury 2010: 116; Presidency 2008: 26). The fall in poverty was largely attributable to growing levels of direct income support to poor households in the form of social security grants. Social assistance in 2009 was 3.5 per cent of GDP with about 14 million people dependent on direct income support, with growth in assistance averaging 12 per cent between 2006 and 2009 (National Treasury 2010: 104). During the period of the recession new claimants to the government controlled unemployment insurance fund increased by 42 per cent and the amount of benefits paid out by 57 per cent (National Treasury 2010: 107). Massive unemployment coupled with a high and growing social wage has led to a dangerous distortion in the labour market: South Africa now has people who more grant recipients (13.8 million) than working taxpayers (12.8 million) (Hazelhurst 2010: 15).

CONCLUSION

The period since the early 1980s has been characterized by extraordinary fluctuations in the prices of commodities, currencies, real estate and stocks resulting in four major waves of financial crises with the 2007-2008 financial crises being the most severe and global since the great depression of the 1930s. The 2007-2008 crises was primarily triggered by a credit boom and housing price bubble in the US soon spread to other major industrialised countries. Apart from the credit boom and housing bubble, a host of other factors which included asymmetric information, securitisation of mortgage loans, and unconventional rating of securitised loans played a role in occurrence of the crisis. Regardess of concerted efforts by policy makers to restore stability, the global financial crisis that began in 2007 and gained momentum in 2008 caused a deep recession in the US, which spread to other major advanced economies and eventually to the rest of the world including SSA.

The impact of the global financial crisis was not only limited to the industrialised economies. Developing countries and emerging market economies, South Africa inclusive, were adversely affected by the crisis. The impact of the crisis on South Africa was largely transmitted through unprecedented capital outflows, cuts in real foreign investment and a reduction in the prices of and demand for export commodities particularly mineral exports. It resulted in significant macroeconomic imbalances in the country. The current account deficit as a percentage of GDP rose from approximately 1.1 per cent 5.8 per cent. GDP growth rate in South Africa fell from 1.8 per cent in the last quarter of 2008 to – 3.2 per cent in the second quarter of 2009. As a result of rising commodity prices, inflation rose to almost 9.9 per cent. Massive job losses throughout the country resulted in a record high real unemployment rate of 32 per cent.

RECOMMENDATIONS

From the findings of this study, the following recommendations are hereby made to improve South African Economy from the global financial crises. Some choices that should at least be considered in the ongoing rescue planning

1. Increase local economic demand by increasing available income of the poor through greater social protection by the Black Economic Empowerment (BEE);
2. Increase knowledge about the poor – where they are situated, their needs and their skills and their potential to participate in productive ventures;
3. Consider how best the current levels of inequality (Gini-coefficient rate 0.60) can be addressed and thus mitigate the social unrest;
4. Design better skills training linked to short-term experience opportunities to ensure for the greater employability of people when jobs become available and thus reduce unemployment rate to below 10 percent;
5. Align industrial policy, labour market policies and skills policies to ensure an efficient matching of current and future demands of the economy.
6. Align the development financial institutions with sector specific industrial and trade policies to stimulate the growth of small businesses, linked to existing rural community development initiatives; and
7. Introduce a percentage tax on Johannesburg Stock Exchange trading that would feed into a development fund to be made available to assist small, micro and medium enterprises and thus provide for local economic opportunities in South Africa.
NOTES


2. The composition of GDP in 2009 by major sector were finance, real estate and business services (21.5 per cent); manufacturing (14.8 per cent); general government services (13.6 per cent); and trade and accommodation (12 per cent). Mining only contributed 5.2 per cent of GDP (National Treasury 2010: 28).

3. South Africa uses two measures of unemployment. The official measure does not include unemployed people who were not looking for employment in the past six months. The expanded measure includes these discouraged work-seekers. Unemployment is much higher on the expanded measure, standing at 31.2 per cent in April 2010.

4. National Treasury’s calculation is based on people living below the line of R367 per month (2007 constant rands).

5. The three major non-contributory social assistance grants are the child support grant, disability grant and old age grant (for further details refer National Treasury 2010: 105).

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