

**Western Cape Government  
Provincial Treasury**

**Provincial Economic Review and  
Outlook  
and  
Municipal Economic Review and  
Outlook  
2020**

**Speech**

**Minister of Finance and Economic Opportunities  
Mr D Maynier**

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Provincial Treasury  
Business Information and Data Management  
Private Bag X9165  
15 Wale Street  
Cape Town  
**tel:** +27 21 483 5618

Email: [pt.communication@westerncape.gov.za](mailto:pt.communication@westerncape.gov.za)

[www.westerncape.gov.za](http://www.westerncape.gov.za)

**Speech by David Maynier,**

**Minister of Finance and Economic Opportunities,**

**Tabling of the Provincial Economic Review and Outlook (PERO) and the Municipal Review  
and Outlook (MERO),**

**Western Cape Provincial Legislature,**

**Cape Town,**

**20 October 2020**

**“We can, and we will, bounce back in the Western Cape.”**

Honourable Speaker;

Honourable Premier and Cabinet Colleagues;

Honourable Leader of the Opposition; and

Honourable Members of the Western Cape Parliament.

## **1. Introduction**

I would like to begin by thanking you for the opportunity to introduce the Provincial Economic Review & Outlook 2020, together with the Municipal Economic Review & Outlook 2020, today in Parliament.

These two world-class documents, which are commonly known as the “PERO” and “MERO”, are produced annually by Provincial Treasury, and contain a review and analysis of economic growth, sectoral developments, labour market dynamics and socio-economic developments across the Western Cape.

This year’s edition also provides valuable insights on the impact of the COVID-19 pandemic on the global, national and provincial economies, and importantly, looks at unique opportunities for growth and investment as we move towards rebuilding our economy in the Western Cape.

Not only do these documents provide valuable data and insights for policy-makers, municipalities and provincial government on key economic issues, but they also provide valuable data and insights for business leaders, for economists, for the media and for those looking for investment opportunities in the Western Cape.

The PERO and MERO also provide the important data and evidence we need to guide the urgent implementation of our recovery plan in the Western Cape.

## **2. Pandemic**

### *2.1 Impact*

When I tabled the PERO and the MERO last year, we were cautiously optimistic about our economy in the Western Cape, which was showing “green shoots” of recovery following a devastating drought.

We were also cautiously optimistic about the pace of our economic recovery, which would be slow due to looming recession.

However, this cautious optimism was shattered as the reality of the global COVID-19 pandemic hit, with the immediate health crisis very quickly resulting in a global economic crisis.

At the time we could not have imagined the size and the scale of the COVID-19 pandemic, nor the impact it would have, or will continue to have in the future.

Faced with the prospect of a health pandemic that we had never seen, or experienced before, we took immediate action to save lives.

We have a lot to be proud of in the Western Cape.

As a result of our immediate health response, we were able to flatten the curve and limit the spread of COVID-19.

And now with the easing of restrictions, we are ready to continue rebuilding our economy in the Western Cape.

## *2.2 Setback*

The COVID-19 pandemic will have a long-term impact on the lives of every South African.

We dare not forget that people have lost jobs, people have gone hungry and people have lost loved ones.

When we entered the national lockdown on the 27<sup>th</sup> March 2020, South Africa was already experiencing its third consecutive quarter of economic decline as a result of pre-existing vulnerabilities including slow growth, high unemployment, unreliable electricity supply and zombie state-owned enterprises.

Our tourism and liquor industries in the Western Cape were particularly hard hit due to the travel and alcohol bans in place under the COVID-19 lockdown restrictions, with the wine industry losing an estimated R300 million per week under Alert Level 5 restrictions with 350 wine producers going out of business.

The pandemic has caused a major setback for us in the Western Cape.

## *2.3 Recovery*

We expect:

- the global economy to contract by 4.9% in 2020 and rebound by 5.4% in 2021.

We expect:

- the national economy to contract by 9.8% in 2020 and rebound by 3.3% in 2021.

And, we expect:

- the provincial economy to contract by 6.9% in 2020 and rebound by 3.8% in 2021.

We expect:

- a slow recovery in economic growth in the Western Cape.

But, we also expect:

- the provincial economy to grow at a faster rate than the national economy in South Africa.

Overall, the economy in the Western Cape is expected to grow at an average annual rate of 1.0% between 2020 and 2024, while the rest of South Africa is expected to grow at an average annual rate of 0.7% between 2020 and 2024.

### **3. Overview**

#### *3.1 Jobs*

On jobs:

We have:

- a higher than average labour force participation rate of 55.2% in the Western Cape;  
and
- the lowest expanded unemployment rate in South Africa at 27.3%.

But, we estimate that in the Western Cape, 151 744 jobs will be lost in 2020.

And the fact is that there are still too many people, especially young people, who do not have jobs, or who have given up looking for jobs in the Western Cape.

And so, we are working hard to support more entrepreneurs and create an enabling environment for private-sector led growth, which will lead to long-term economic recovery in the Western Cape.

### 3.2 *Safety*

On safety:

We have:

- A decrease of 22.9% in drug-related crimes;
- A decrease of 1.8% in driving under the influence of alcohol or drugs; and
- A decrease of 6.2% in property-related crimes, with burglaries seeing the highest decrease of 8.5%.

However, crime statistics continue to paint a grim picture of the levels of violence, especially against women and children, in the Western Cape.

And the fact is that there are still too many people, especially women and children, who live in fear and who are victims of murder, rape and sexual assault in the Western Cape.

And so, we are working hard to implement a whole-of-society approach, focused on targeted, hotspot policing and social interventions to ensure the safety of all those living in the Western Cape.

### 3.3 *Dignity*

On dignity:

We have:

- An increase in the Human Development Index across all districts in the Western Cape;
- The highest life expectancy in South Africa;

- The highest average learner retention in South Africa for Grades 10 to 12; and
- A matric pass rate of 82.2% with the highest percentage of distinction passes in South Africa.

However, as a result of the COVID-19 lockdown restrictions, we expect to see an increase in inequality, and an increased reliance on social grants as household income decreases as a result of increased unemployment in the Western Cape.

And the fact is that there are still too many people who are hungry, who don't have opportunities and whose basic needs are not being met.

And so, we are working hard to strengthen foundations in early childhood development and increase the well-being of all those who live in the Western Cape.

#### **4. Risks and Opportunities**

##### *4.1 Provincial Risks*

As we look to rebuild our economy in the Western Cape, the PERO and MERO outline the many challenges we face:

- An unstable national economy with increasingly unsustainable debt levels;
- Load-shedding as a result of a critically constrained national electricity grid; and
- The continued burden of failing zombie State-Owned Enterprises like South African Airways.

Add to these the new challenges as a result of the COVID-19 pandemic:

- A collapse in global travel, with our tourism sector unable to restart because of the "red list" which kills our key source markets for international tourism in the Western Cape;
- Restrictions on the sale of alcohol, which have severely impacted our hospitality and wine sectors, and which have not yet been fully lifted;



- The digital divide, where those who do not have access to the internet and technology are at risk of being left behind, as the use of digital technologies accelerates with more people working from home or moving to hybrid working environments; and
- Most importantly, the risk of an acceleration of COVID-19 infections and a “*second wave*” in the Western Cape.

## 4.2 *Provincial Opportunities*

Considering the challenges and the importance of economic recovery at this time, this year’s editions of the PERO and the MERO also include a focus on identifying unique development and investment opportunities.

### 4.2.1 *Agriculture and Agri-Processing*

Our agricultural sector has had a better than expected year, despite the predictions caused by the impact of the drought.

In July and August, South Africa exported almost R8 billion in citrus in what is expected to be one of the best seasons on record. This was thanks to a solid local harvest, but also strong demand, especially in Europe, for vitamin C as COVID-19 caused consumers to become more conscious of protecting their immune systems.

And much of this has come from the Western Cape which produces 79% of South Africa’s soft citrus, 60% of South Africa’s oranges and 49% of South Africa’s lemons.

Over the past decade, exports in the Western Cape grew on average by 2.1% per annum which has been stronger than the rest of South Africa, which experienced an average annual growth of 1.5%. This can mainly be attributed to the province’s relative comparative advantage in Agricultural and Agri-processing goods.

In fact, the Agri-processing sector contributes to approximately 9.9 % of national exports and 4.4% of total employment in South Africa. And in 2019, the Western Cape contributed

more than 90% of national exports of blueberries, bulk wine and pears; and more than 80% of table grapes, bottled wine and apples exports.

#### *4.2.2 Green Economy*

Recent announcements by national government that municipalities in good financial standing can now generate and procure their own energy, opens significant opportunities for investment in the Green Economy in the Western Cape.

Especially considering that we are the province with the most municipalities in good financial standing in the country.

Our Municipal Energy Resilience project run by the Department of Economic Development and Tourism is working hard to ensure that Western Cape municipalities can take advantage of the new energy regulations and become the first to purchase energy directly from Independent Power Producers.

And we have our Atlantis Special Economic Zone which is perfectly positioned to play a key role in the development of the renewable energy sector and our economic recovery in the Western Cape.

We have worked hard to support the establishment of this green-tech, export-orientated manufacturing hub in order to attract investment that leads to increased exports and localisation of green technologies, which will ultimately enable the green economy to create jobs in the Western Cape.

#### *4.2.3 Business Process Outsourcing*

The technology-focused reality of the post-COVID-19 world has meant a sharp upswing for the Business Process Outsourcing or “BPO” sector, which offers significant opportunities for growth and employment, especially for young people, currently employing over 60,000 people in the Western Cape.

Through our skills development programme in the Department of Economic Development and Tourism, we invested R30 million toward stipends that support youth work placements in the BPO sector in the Western Cape.

The result is that over 1 000 young people have been given opportunities in the BPO sector.

In addition, as a result of considerable resilience and adaptation during the COVID-19 pandemic, the BPO sector created a further 5 160 new jobs between April and September in the Western Cape.

#### *4.2.4 District Green Shoots*

And the MERO also gives us a good indication of where we can look for green shoots at a local level too:

##### *4.2.4.1 West Coast*

The West Coast District has had some major setbacks recently with the Arcelor Mittal Steelworks plant placed into care and maintenance.

But the Saldanha Bay Industrial Development Zone is a reason for hope actively creating jobs and driving growth in the construction sector for the municipal area.

To date the Saldanha Bay Industrial Development Zone has signed 11 lease agreements with an investment value of more than R3.0 billion and has a pipeline of 60 investors which continue to be pursued.

The West Coast District also attracts a combination of overseas and domestic visitors and just last month I was lucky enough to visit the West Coast National Park, the San Cultural Centre and the West Coast Fossil Park.

##### *4.2.4.2 Garden Route*

Between 2014 and 2018 the Garden Route District's economy grew slightly faster than the province, at 1.5 %. This was mainly driven by the George municipality with a regional GDP value of R17.9 billion in 2018.

The Garden Route District is a very popular tourism destination, and pre-COVID-19 received visitors throughout the year. While the COVID-19 travel restrictions have had a severe negative impact on the tourism sector in this region, the district's tourism landscape is very competitive, with a range of attractions and activities that can cater to all travel requirements. I can personally attest to this when I visited the region in September and went horseback-riding, visited Garden of Eden and completed the world's longest over-ocean zipline all in one day.

#### 4.2.4.3 *Central Karoo*

The Central Karoo has been particularly hard-hit by persistent drought conditions in recent years which has had a negative impact on economic activity in the region. Good rainfall in 2020 means that our dams are on their way to recovery.

Beaufort West remains the highest contributor to regional GDP in the Central Karoo, while the other two municipalities, Prince Albert and Laingsburg, are reliant on the agricultural, forestry and fisheries sector which makes these economies vulnerable to climate shocks and water scarcity. At the same time this sector offers competitive advantage to the region and plays a key role in employment.

The Central Karoo District largely attracts domestic short stay tourists but diversifying the tourism offerings available in the district to encourage longer visitor stays is an opportunity to increase tourism spending in the region.

Which is why, last month, Premier Alan Winde and I launched the Karoo Crossing route in Prince Albert, which is a 358km journey and the fifth route within the Cape Cycle Route network.

#### 4.2.4.4 *Overberg*

The Overberg District has maintained a positive trade balance for the past 10 years with the Theewaterskloof municipality contributing the most to exports in the region at 57.8%. The Overberg is the largest exporter of fresh apples and pears in the country, having exported R539.9 million of apples and pears in 2019.

The Overberg is also a popular destination for both international and domestic tourists. The data shows that most visitors stay overnight but only for one night and there is also an opportunity for the Overberg to innovate to encourage longer stays and increase tourism spend in the region.

Research shows that there is pent-up domestic demand for travel in wide-open spaces and the Overberg, which already caters for sport enthusiasts and eco-adventures with a diversity of outdoor and nature activities on offer, is well-placed to benefit from our domestic tourism campaign as part of our COVID-19 recovery strategy.

Last month I visited Hermanus and, besides joining in on the “*Jerusalema Challenge*” at the Hermanus Harbour, I was also able to take a whale-watching excursion to experience the beauty of our active marine life in the region.

#### 4.2.4.5 *Cape Winelands*

The economy of the Cape Winelands District was valued at R67.5 billion in 2018 and contributed 11.4% to the Western Cape’s total GDP and 15.3% to total employment. However, the result of COVID-19 lockdown restrictions on business activities in the district, including the wine industry, is likely to be severe in 2020.

The Drakenstein municipality contributed the most to exports in the Cape Winelands District in 2019 with wine and grapes being the largest export product for the district valued at R5.7 billion in 2019.

The district is also an attractive destination for international and domestic tourists, with 91.1% of people visiting the district for leisure purposes in 2019, taking part mainly in cultural and heritage activities and wine tasting.

I visited the Cape Winelands during the height of lock-down and experienced first-hand the negative impact of the closures on businesses in the area.

However, the Cape Winelands is likely to also benefit greatly from our ‘*We Are Open*’ domestic tourism campaign given its proximity to Cape Town.

#### 4.2.4.6 *Cape Metro*

Finally, the economy of the Cape Metro was valued at R423.2 billion in 2018, contributing 9.7 % to the national economy and 71.8 % to the provincial economy. And in 2019, the Cape Metro had the lowest unemployment rate compared to all other metros across South Africa.

The Cape Metro area also has a comparative advantage in the communication, finance and insurance and business services sectors, of which the BPO sector is crucial for future growth potential.

The Cape Metro area also has a comparative advantage in terms of food and beverage manufacturing. This sector has been achieving above-average growth, creating an average of 1 069 jobs annually between 2014 and 2018. While it was negatively impacted by the drought, this sector has potential to see considerable post-COVID-19 growth and investment.

Cape Town is ranked as one of the top 15 most competitive cities in the world and attracts large volumes of domestic and international tourists. The resumption of international travel will be crucial for economic recovery in the Cape Metro region.

In 2019, Cape Town International Airport recorded over 1 million international arrivals and over 4 million domestic arrivals. I visited the airport earlier this month to welcome the first international flight from the UAE which was an exciting occasion. And although the 'red list' continues to constrain our international travel reopening, we are fighting hard to have this list scrapped.

## 5. **Conclusion**

Last week President Cyril Ramaphosa, said: "In the aftermath of a fire, green shoots begin to emerge", but the truth is that in the middle of the fire, green shoots can emerge too.

### 5.1 *Health response*

What government, and the people in government, have achieved in the fight against COVID-19 is nothing short of extraordinary in the Western Cape.

The chairperson of the COVID-19 ministerial advisory committee, Professor Salim Abdool Karim, recently commended the Western Cape, saying: *“we learnt from them, they became the teachers telling us what they did. We are blessed with the ability to really understand each other and work with each other.”*

Not only has the excellence of our health response been recognised in South Africa, but our resilience, having successfully responded to two major shock events, a drought and a pandemic, is another reason investors feel confident investing in the Western Cape.

## 5.2 Recovery Plan

In summary:

We expect:

- a slow recovery in economic growth in the Western Cape.

But, we also expect:

- the provincial economy to grow at a faster rate than the national economy in South Africa.

We can, and we will, bounce back in the Western Cape.

However, we must face the fact that too many people don't have jobs, too many people are victims of crime, especially violent crime, and too many people are poor and cannot meet their basic needs in the Western Cape.

Which is why, Premier Alan Winde has announced a new set of priorities - “Jobs”, “Safety” and “Dignity” - which together form the pillars of the recovery plan in the Western Cape.

And so, we look forward to Premier Alan Winde's special provincial address later this week where he will outline the tough decisions necessary to deliver jobs, to deliver safety and to deliver dignity in the Western Cape.

## 6. Tabling

Speaker:

I hereby table the Provincial Economic Review & Outlook 2020 and the Municipal Economic Review & Outlook 2020 for consideration and deliberation in the Western Cape Parliament.

I can assure Honourable Members that the Provincial Economic Review & Outlook 2020 and the Municipal Economic Review & Outlook 2020 are world-class research documents that will assist them in their duties in Parliament.

And finally:

I would like to thank everybody who made contributions and who worked so hard to produce the Provincial Economic Review & Outlook 2020 and the Municipal Economic Review & Outlook 2020.